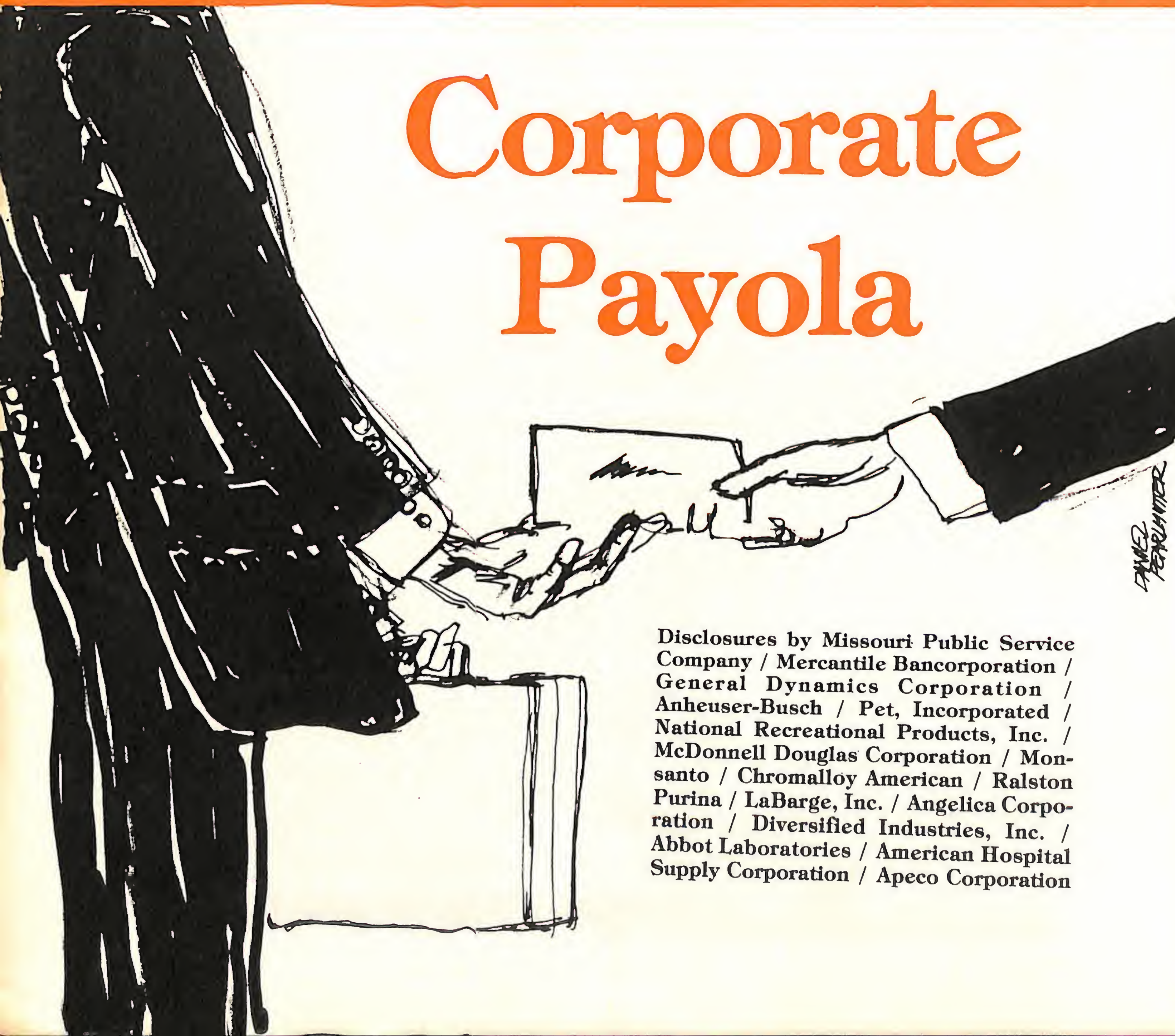
May/June 1979
Volume 13, Number 81/$1.25

FOCUS MIDWEST

A MAGAZINE SENSITIVE TO THE REALITIES IN OUR SOCIETY



Corporate Payola

Disclosures by Missouri Public Service Company / Mercantile Bancorporation / General Dynamics Corporation / Anheuser-Busch / Pet, Incorporated / National Recreational Products, Inc. / McDonnell Douglas Corporation / Monsanto / Chromalloy American / Ralston Purina / LaBarge, Inc. / Angelica Corporation / Diversified Industries, Inc. / Abbot Laboratories / American Hospital Supply Corporation / Apeco Corporation

out of focus

Readers are invited to submit items for publication, indicating whether the sender can be identified. Items must be fully documented and not require any comment.

President Carter's plan to eliminate oil price controls would cost each person in the U.S. $68.84 which will add up to about $14.8 billion in the next couple years. Most of these billions will benefit the oil industry in order to enable them to invest in new domestic oil exploration, the government hopes. However, during the last profit windfall on occasion of the initial OPEC price increase, the eight major companies had profits of $8 billion, which then was justified as necessary to — you guessed it — explore domestic oil. What happened to all those new oil wells?

Pakistani President Zia-ul-Haq, who praises himself for giving to the country a "rule of Islamic law . . . aimed at bringing about a . . . progressive and forward looking society," introduced a package of laws which provides for stoning to death for adultery, amputation of the hand for theft, and flogging (80 lashes) for drinking (not applicable to non-Muslims). Two sentences of amputation have not yet been executed.

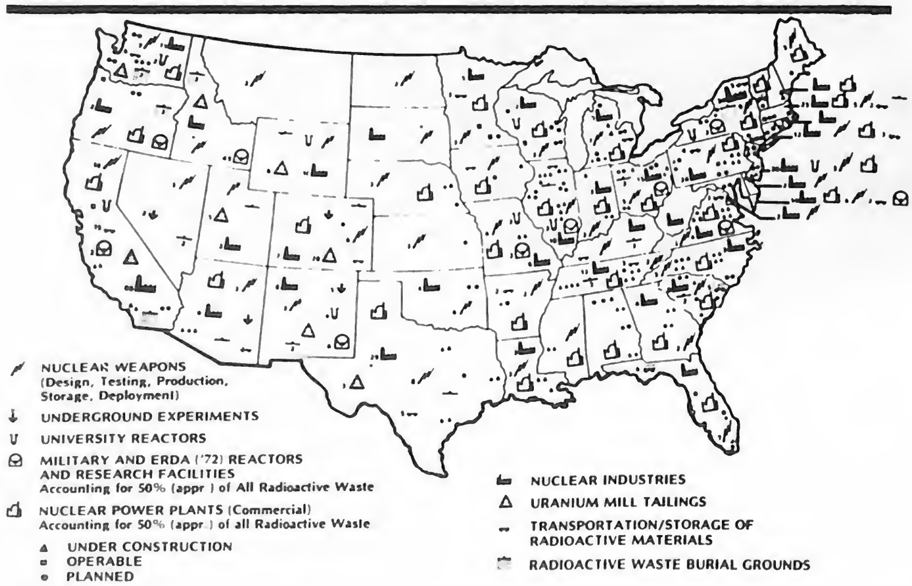
Although total average income taxes of 100 largest companies increased by 8.5% last year, the actual tax rate declined from 30.5% to 29.6%, according to the Gallagher Presidents' Report.

Add synthetic hair implants to the list of unsafe consumer items. The Food and Drug Administration cautions that "serious complications" may result — infections, scarring, pitting and fibers breaking off in the scalp. Promoters of the process have been unable to prove its success to the satisfaction of FDA officials.

The "gun lobby" — NRA, Gun Owners of America and Citizens Committee for the Right to Keep and Bear Arms — spent $1.3 million on campaigns in 1978. More than half of Missouri's representatives went to Washington with gun lobby support. Harold Volkmer (D-9), E. Thomas Coleman (R-6), Robert Young (D-2), Bill Burlison (D-10), Richard Gephart (D-3), Richard Ichord (D-8) and Gene Taylor (R-7) accepted donations. However, only three Illinois Representatives — Daniel Crane (R-22), Thomas J. Corcoran (R-15) and Robert Michel (R-18) — benefitted from the largesse of the pro-gun forces.

Rep. John Matijevich (D-North Chicago) stood up following Gov. James R. Thompson's state of the state message and lauded the translating of Thompson's speech into sign language, so "the deaf people of Illinois can hear that address."

Reported by UPI, submitted by Arnie Matanky



Civil and military nuclear facilities have spread to every state, according to a map published by Clergy and Laity Concerned.

FOCUS MIDWEST

FOCUS/Midwest, Volume 13, Number 81. Application to mail at second class postage rates is pending at St. Louis, Mo. Published bimonthly by FOCUS/Midwest Publishing Co., Inc. Subscription rates: $7/6 issues (one year); $11.50/12 issues (two years); $15.50/18 issues (three years); $27/30 issues (five years); $100 lifetime. Foreign $3 per year extra. All back issues are available. Allow one month for address changes. Advertising rates upon request. Enclose stamped, self-addressed envelope with manuscript, May-June 1979. Please mail subscriptions, manuscripts, and Post Office Form 3579 to FOCUS/Midwest, 928a N. McKnight, St. Louis, Mo. 63132.

FOCUS/Midwest is indexed by the Public Affairs Information Service, Inc. (PAIS), the American Bibliographical Center, the Annual Bibliography of English Language and Literature (Leeds, England), and the Index of American Periodical Verse, and abstracted and indexed in Historical Abstracts and America: History and Life.

International Standard Serial Number: US ISSN 0015-508X

COMING ISSUE

Watch for more corporate disclosures in the next issue

Low income groups taxed most in Missouri and Illinois

Even the most avid supporters of lower taxes will agree that the conduct of government must be financed by the public. The only questions are: how much and by whom? While a discussion of how much by itself is simplistic and misleading, an exploration of by whom addresses the core of the tax issue. This scares some, particularly business interests. They have orchestrated efforts to deflect any discussion of "by whom" to "how much." The well-oiled anti-tax campaign which exploits middle-class resentment, rarely looks at the origin or the structure but usually only at the level of taxes.

This subtle campaign has been immensely successful. Since taxes are rarely popular, it is simple to rally taxpayers in support of lowering taxes (the "how much") — even if such action would impair governmental services and other benefits: a classic case of a misled majority cutting off their collective noses to spite their collective faces — as California is now finding out.

Indeed, we should discuss taxes, particularly in Illinois and Missouri. If we examine the "by whom" in addition to the "how much," the public may ultimately insist on genuine reform, the lowering of taxes for those who can least afford them, and a shifting of the tax burden to those who now are behind the various tax limitation campaigns.

Again, judging by the hectic, nearly hysterical, activity in state legislatures, one could assume that legislators are indeed concerned about the tax system. Not at all. While 37 state legislatures have introduced bills for spending limits, not one, repeat not one, has proposed genuine broad-based tax reform.

For a change, let's look at the origin of taxes and at the system.

Missouri and Illinois are among the most regressively-taxed states in the country, according to a February 1979 study prepared by the Coalition of American Public Employees (CAPE). This means that those who can least afford it, proportionately pay the most. And those who can best afford it, proportionately pay the least. The study ranked the states on tax features and levels that contribute most to equitable systems of state taxes. The authors, Diane Fuchs and Steven A. Rabin, analyzed taxes on sales, personal income, business, property and the administration of such taxes. They found that Illinois ranks 42nd and Missouri 39th.

In sales taxes, the most regressive form of taxation, because it takes a greater percentage of household income as income declines, Illinois ranks 49th and Missouri 39th. To make sales taxes less regressive, legislatures frequently fight over exemptions and whether to broaden the tax base. Credits or exemptions for food, medicine and other necessities is one index of the nature of a sales tax. The inclusion of services as well as goods in the tax base is a second. Since purchase of services tends to increase with income, taxing services provides a progressive source of additional revenue.

The personal income tax has the potential for being the most progressive as well as being a substantial source of revenue that can enable states to reduce the burden of other taxes. Illinois placed 37th and Missouri 33rd on the basis of whether their rates of taxation increase as income rises; how households under the poverty level are taxed; and how much reliance is put on the income tax. While eight states have no income tax at all, Illinois and Missouri place in the bottom ten of states which have an income tax.

When business does not pay a fair share of the overall tax burden, individuals bear a heavier share — paying higher taxes on income, property and purchases. Based on the level of taxes, on auditing methods, and on tax breaks for business, Missouri was rated 35th and Illinois 40th by the CAPE study.

The present role of the states in property taxation is small because that tax is primarily a source of local revenue. CAPE rated states on the quality of assessments, the degree of conformity between assessments and the state standard, the effectiveness of intangible property taxation and provisions for relief such as homestead exemptions and circuit breakers. Illinois was judged 14th and Missouri 35th.

Even a cursory review of the state rankings shows the need for a thorough overhauling of the tax structures in Illinois and Missouri. Neither the legislatures of Missouri nor Illinois have such a concern.

In Missouri, Governor Joseph Teasdale proposed this February to shift some of the tax burden to corporations. The bill, backed by Rep. Bud Fendler (D.-Lemay), would have changed the

state rank from having the second-lowest only to the seventh-lowest corporate tax package. The bill would have brought Missouri in line with 44 other states that tax businesses based on the combined percentages of a business's plant, payroll and sales. The bill would have even lowered the corporate tax rate from its present 5 to 4½ per cent. The total of corporate tax revenues, says Fendler, would have remained unchanged, but the largest 10 per cent of Missouri's firms would pay more and the other 90 per cent less.

The opposition charged that this shifting of taxes would cause the state to be less attractive to new commercial developments. Actually, studies show that business decisions on where to locate are not influenced by such tax breaks, which are unjustified subsidies (usually to the largest corporations) with the cost borne by individual taxpayers. This bill was easily defeated.

Illinois, too, is not seriously considering any drastic revision of its tax system. A hopeful sign is the introduction of bills which call for an increase in the income tax of 1.5 to 4.8 per cent to replace the personal property tax on corporations, which the Illinois Supreme Court has abolished.

* * * * *

"Who pays" for public services should reflect the ability to pay, not the ability to influence. But this is the crux of the problem: those who can pay largely overlap with those who can influence. Fortunately, consumer, neighborhood, labor and student groups and similar organizations can offer a counterbalance. They represent the only alternative to the influence of the amply funded business lobbies: the influence of organization. They can redirect public discussion from the false issue of "how much" to the decisive question, "who pays."

Journalism Review wins award

We were pleased to learn that the St. Louis Journalism Review, also published by Focus/Midwest Publishing Co., Inc., was the winner of the first annual Lowell Mellett Award for Improving Journalism Through Critical Evaluation, as announced by the Mellett Fund in Washington, D.C. The committee award cited the Journalism Review's "sustained and hard-hitting criticism" of the St. Louis media, in awarding the Review the first-place honor over nearly 50 other entries.

In this issue

Hundreds of American companies have broken the law in search of increasing sales. Some of these illegal business practices are summarized in this and the coming issue. We are publishing this information in the belief that business must be kept accountable, particularly major corporations, which benefit from public laws and which claim to serve the public.

The ramifications of bribes (or "excessive commissions," as they are sometimes called) go far beyond the transfer of money from one bulging pocket to another. They hurt business, the consumer and the government and, possibly most important, they so erode business ethics that the conduct of contemporary business people becomes indistinguishable from that of the notorious robber barons of yesterday.

Paying bribes hurts business by keeping better products off the market because its producers are outbribed by wealthier companies. It hurts the consumer who may receive an inferior product. It cheats government (and in the case of foreign sales, two governments) out of taxes from those able to pay, throwing a heavier burden on those businesses and individuals less well off. It tarnishes the image of all Americans. Shockwaves went through several countries when governments toppled in the wake of payoff disclosures.

Moreover, bribery as a way of corporate life can have an insidious effect on the nation's entire business community. If one company within an industry reaps benefits from paying bribes, it becomes imperative for competitors to play the same game. The result is a gradual but inevitable eroding of ethics in business.

The passage of the Foreign Corrupt Practices Act of 1977 was supposed to ban secret slush funds, bribery, political payoffs and kickbacks. Allowing businesses to investigate themselves and make voluntary disclosures of any illegal practices (rather than face an SEC investigation) was considered a further inducement to stopping the payment of bribes. By now, however, it appears that businesspeople are openly taking steps to circumvent the law.

American businesses, particularly corporations with oversea interests, are in a bitter mood. Foreign morality is so much lower than ours, they say, we must bribe businesspeople and officials to get a fair share of the market. It's not our fault, they say, it's the environment, the people we have to live with, the needs of our business that force us to break the law. Don't blame us, blame the system, is the cry. Interestingly, many social theorists have made similar claims for Americans at the other end of the economic spectrum. It's gratifying to know that the corporate community is beginning to recognize the possibility of such societal influences.

As our more conservative colleagues in the press always say, law and order must come first. We will observe with interest how severely the Foreign Corrupt Practices Act will be enforced. It not only provides for fines up to $10,000 (which is a token payment for major corporations) but also up to five years in jail for corporate directors. If that doesn't work, public exposure may be the only tool left for keeping business from breaking too many laws too blatantly.

coming into focus

Bipartisan supervision of redistricting is the goal of legislation introduced by Missouri Senator John Danforth and Colorado Senator Gary Hart. Designed to preclude gerrymandering, the bill (S596) provides for a reapportionment commission of members appointed by majority and minority leaders in both state houses.

The growing national concern over the incidence and social repercussions of rape has prompted thousands of people in cities across the country to stage non-violent candlelight demonstrations called WOMEN TAKE BACK THE NIGHT marches.

That effort will come to Kansas City June 9, 1979, reports METRO/MICA newsletter.

Current estimates indicate that 70 to 90 per cent of rapes are unreported because of fear. In Kansas City, conservative estimates project that one in four women will be sexually assaulted in her lifetime. Age of victims ranges from six months to 94 years; conviction rate in most parts of the U.S. is one per cent.

The Chicago-based National Training and Information Center, which offers training programs, information, and technical assistance to local groups, received a grant of $110,000 from the Ford Foundation. The center began by combating redlining — the refusal of banks to make mortgage or home improvement loans in areas that appeared to be on the decline — and by training community leaders in the intricacies of working with banks and governmental agencies. The center is developing new programs to deal with two problems that have arisen in conjunction with neighborhood revitalization: the inability of homeowners to get casualty insurance and the displacement of poor and moderate-income residents as more affluent buyers move into and rehabilitate inner-city areas.

The Tenant Affairs Board, which manages a public housing complex in St. Louis, received $118,251 from the Ford Foundation to open two "share care" centers for teenage mothers and their babies. The staff members, women who live in the housing project, will serve as surrogate mothers and grandmothers to the young families. They will hold informal discussions with the teenagers on such topics as child-rearing, health, nutrition, and family planning, and will help them work out plans to return to school or begin job training. The older women will also mind the babies while the young mothers take part in educational programs run by local agencies cooperating in the experiment. The Danforth Foundation is providing additional funding for the program.

Here is an idea from France. School buses that return to their starting points empty after having deposited school children at their destination are being made available as public transportation, if no other mass transportation operates along their routes. The bus schedules and routes are posted at public locations of the communities in which the special service is being offered. To permit even greater public participation, and, at the same time, achieve cost recovery for the service, adults are being allowed to occupy empty seats that bring students back and forth to school. The French contemplate extending the service into low demand areas thereby achieving better utilization of existing transportation facilities.

---

letters

F/M: An article caught my attention, "Chicago Theater Scene" by Jill Vanneman. It is a fine piece of writing on an important art discipline, but frankly it is out of date.

The Chicago Theatre Group was created in July of 1977, and has to date raised over 2 million dollars to support the Goodman Theatre. More than 40 Chicago Corporations have contributed to this total, and I estimate that by June of '79 the figure should be close to 60 corporations. Major foundations across the country all made grants to our drive.

I was delighted to note FOCUS/Midwest was involved in publishing an interim newspaper (the St. Louis Times) during the recent strike.

Stanley Freehling
Chicago, Illinois

missouri politics

by E. Terrence Jones

While State Treasurer James Spainhower dreamed about replacing Joe Teasdale as Missouri Governor in 1980, the state's municipalities held their odd-year elections. The results include a new mayor for Kansas City and not much change in St. Louis.

The Kansas City mayoral race answered the question: How can a rich Republican Jew become mayor of a middle-class Democratic gentile city? First, conduct a non-partisan primary where many Democrats but only one Republican enter. Make it a primary where only the two highest vote-getters survive to run in the general election. Let the Democrats kill off each other and thereby allow the Republican to qualify for the general. If possible, have the remaining Democrat's voting strength reside in a highly cohesive minority (say, blacks). This should be relatively easy since, in a three-or-more-person contest, candidates with solid (albeit limited) bases tend to do quite well. In the general election, appeal to broad constituency, allow the Democrat to carry his or her narrow base, and make plans for the victory celebration.

This is the scenario followed by Richard L. Berkley, Kansas City's new mayor. In the February 27 primary, three Democrats — Joel Pelofsky, Bruce R. Watkins, and incumbent Charles Wheeler — competed against Republican Berkley. Watkins, a black councilperson with solid support in inner-city wards, finished first with 23,853 votes, 17,414 of which were from six of Kansas City's 25 wards. Berkley was a close second with 22,855 votes, Pelofsky placed third, and Wheeler fourth.

In the March 27 general election, white gentile Kansas City chose a white Jew over a black gentile. Berkley defeated Watkins rather handily, 73,358 (58.1%) to 52,798 (41.9%). As a result, Kansas City has its first Jewish mayor ever and its first Republican mayor in fifty years.

Across the state in St. Louis, things were less tumultuous. Only one citywide office — President of the Board of Aldermen — was on the ballot. In addition to presiding over St. Louis' legislature, the Board President also sits along with the Mayor and the Comptroller on the City's principal fiscal body — the Board of Estimate and Apportionment. There was no opposition in the February 6 Democratic and Republican primaries. Incumbent Paul J. Simon was unchallenged among the Democrats, and no one wished to dispute Conway B. Briscoe's willingness to be the Republican sacrificial lamb. In the April 3 general election, Briscoe was duly slaughtered, 31,491 (75.3%) to 10,320 (24.7%).

Fourteen of the City's 28 alderperson positions were up for election. Republicans doubled their representation by barely holding on to their one seat (45-vote margin) and narrowly winning a second slot (41-vote margin). Put another way, but for less than one hundred votes, St. Louis would lack even a token two-party representation.


Richard Berkley


Bruce Watkins

In all, seven of the elected alderpersons will be new to the Board. Four did not seek reelection, two were defeated in the Democratic primary, and one lost in the general election. Among the successful incumbents was Bruce Sommer, St. Louis' maverick legislator. Despite strong efforts by Mayor James Conway (a former ally and present enemy) to unseat Sommer, he had a three-to-one margin over his principal opponent.

St. Louis' Board of Education — much criticized for its handling of the recent teachers' strike — survived the April 3 election virtually intact. Five of the six incumbents running for reelection won.

Finally, in Florissant, Missouri's largest suburban municipality, longtime incumbent James Eagan almost lost. Eagan, an unsuccessful Democratic candidate for St. Louis County Supervisor last November, had instituted a fire-'em-if-they're-fat policy for Florissant employees. It turns out that, although thin might be beautiful in the American culture, it is not good politics. Eagan recognized it. After his narrow escape, he rescinded his weight policy.

illinois politics

by Sheldon Gardner

Byrne whipped the boys from City Hall.

Jane Byrne has had her revenge for being dumped as head of Chicago's Consumer Affairs Department. The first woman mayor in Chicago history, she taught the boys from City Hall that the sexist view that women were weak and indecisive was misplaced. Few voters rejected Byrne upon the basis of her sex; indeed, many were delighted to vote for a woman. It seems doubtful that sex was a key factor in the race.

Byrne's allegations of corruption in favors to cab companies set her out on a long, difficult path.

If the story were spun into a fictional tale it would be rejected by publishers as improbable. At the time Byrne entered the race for mayor, Bilandic had recently won a special election to fill the unexpired term of Mayor Daley. Potential challengers considered serious opponents all passed on the election as being too difficult to pull off. Alderman Roman Pucinski, a former Congressman and ambitious leader in the Polish community, ran a good race in the special election but passed up this confrontation. Former Alderman William "Billy" Singer and independent leader and State Senator Harold Washington, both former mayoral candidates, also chose not to run. This lack of competition enabled Jane Byrne to gather all dissidents under her banner. A black, Polish, Jewish or independent candidate could have taken enough of Byrne's vote to elect Bilandic. Regulars wrote Byrne off as a candidate motivated by revenge and with no solid base. Her campaign was allowed to take root without the dirty tricks the Chicago Machine has used in past years. Indeed, prior to the primary, she received none of the endorsements from the press or the I.V.I. usually coveted by candidates.

Shortly before the election, Bilandic utterly mismanaged the snow problems created by Chicago's worst winter. Also allegations of misuse of funds for meaningless studies by the former deputy mayor, failure to clear

streets and finally the collapse of the transportation system raised the wrath of the mildest voter. Cutting elevated train service to most of the black community and lying about which lots had been cleared for parking, intensified the criticism of Bilandic.

He responded by crying that he was maligned by the press. He likened himself to the martyred Jews of the holocaust as well as Martin Luther King. The City Council passed resolutions of praise. The public continued to move to Byrne. Pollsters picked up this trend, but could not believe their own results. On Election Day the Machine carried only the dozen or so wards controlled by the powerful committeemen. The black and independent areas went overwhelmingly for Byrne. Her small but respectable margin was the upset of the century.

Obviously, the upset was not due to the unhappy black and independent voters who had been anti-machine for some time, but because the disillusioned "regulars" abandoned the Machine. They were believers in the Mussolini theory of politics: political dictators are necessary because they make the trains run on time. These people believe that democracy may be sacrificed to making the economic system work. But the system didn't work. The trains didn't run on time. Perhaps to these voters, Daley made the city work, but Bilandic wasn't a Daley. Some of the "Bilandic jokes" illustrated this: a voter says the snow removal problem would never have occurred if Mayor Daley were alive. The second voter responds that it wouldn't have happened if Bilandic were alive.

The city fell apart, the illusion of the city that works vanished and the Machine suffered its worst defeat in recent history.

The general election was anti-climatic. The only question was the size of the Byrne victory. Her 82% of the vote was another modern record. She carried every ward and all but two of the city's 3,100 precincts. The Republican candidate, Wallace Johnson, was probably the weakest candidate of the weak Republican party.

Pulley, the candidate of the Socialist Workers Party, conducted a vigorous campaign but garnered only 2% of the vote.

The Byrne upset caused a reaction against incumbent aldermen and even with fewer contests than usual, there were ten runoffs. The new city council, although overwhelmingly regular, will show more independence due to Bilandic's defeat. The council will have 8 to 10 independents. Byrne's "Evil Cabal" is a hard core of 12 to 15 strong regulars. The 25 to 30 others range from regulars who have felt powerless to factional party leaders. The power of patronage gives the new mayor, even with the legal limits on firing under the Shakman Doctrine, a hold over many aldermen. In addition, the upcoming spring elections will place the 50 ward committeemen posts on the line. Since the power of the machine aldermen is usually tied to that of the committeemen, no aldermen will want to create an enemy in Byrne. This, together with her huge victory, will insure Jane Byrne a long political honeymoon.

The election of Byrne both continues and changes some Chicago customs. Since the assassination of Anton Cermak in 1933, a succession of mayors, Ed Kelly, Martin Kennelly, Richard Daley and Michael Bilandic all resided in the 11th ward. Byrne brought the first non-11th warder into the mayor's chair and will weaken this most powerful ward. Recent mayors, up to Bilandic, have been Irish. Byrne restores that tradition. In addition, Byrne was the only mayor to win without the support of any of the Democratic ward committeemen. It will be exciting for political birdwatchers to view the battles between Mayor Byrne and the power bloc of regulars in the council. If Byrne makes a premature deal with her opponents, she might well alienate her independent supporters, whom she will need in the coming committeemen and re-election battles.

Mikva Appointment

The pending appointment of Abner Mikva to the Federal Circuit Court of Appeals for the District of Columbia Circuit has given rise to speculation as

to his successor. The tenth Illinois congressional district is one of the most marginal seats in the country covering the five north suburban townships closest to Lake Michigan. Every election since the last reapportionment has been extremely close.

The leading Republican contender is John Porter, who ran and lost to Mikva in a close race last November. Former State Representative Porter has the jump as he had started to campaign for the next full term prior to the announcement of the judicial appointment. Dan Hales, a conservative candidate, identified with both Crane and Reagan, ran in the last two Republican primaries and is expected to run again. The former Republican Congressman, Sam Young, is another possible contender.

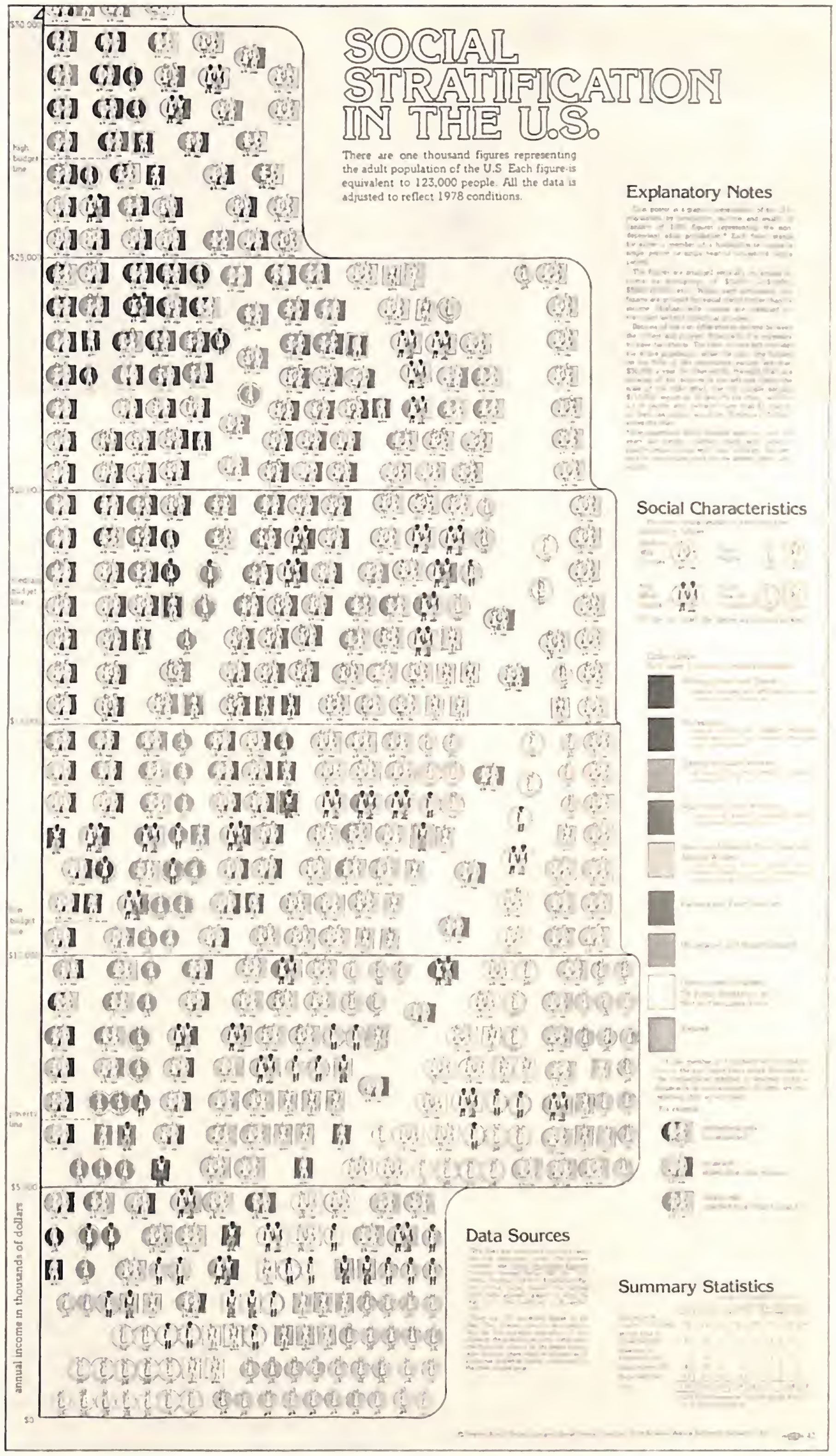
On the Democratic side, the water is quite murky. Possible candidates are the three Democratic state representatives in the district, Harold Katz, Allen Greiman and Aaron Jaffe, as well as former State Representative Joseph Lundy. Among them only Greiman is a serious contender. Others mentioned include Newton Minow, prominent attorney and former Chairman of the F.C.C., and Marge Benton, the well-known backer of Democratic liberal causes. The Democrats need a prominent name with solid financial backing if they wish to elect a Congressman in a district that is traditionally Republican.

Stevenson Retires

Senator Adlai Stevenson III's unexpected retirement will cause considerable vying for power among the many eager Democrats seeking this prominent post. The first declared candidate is Alan Dixon, the popular downstater who is secretary of state and has been state treasurer. It would seem likely that a Chicago machine candidate will emerge, but it is too soon to speculate as to whether it would be Tom Tully, Neal Hartigan or someone else.

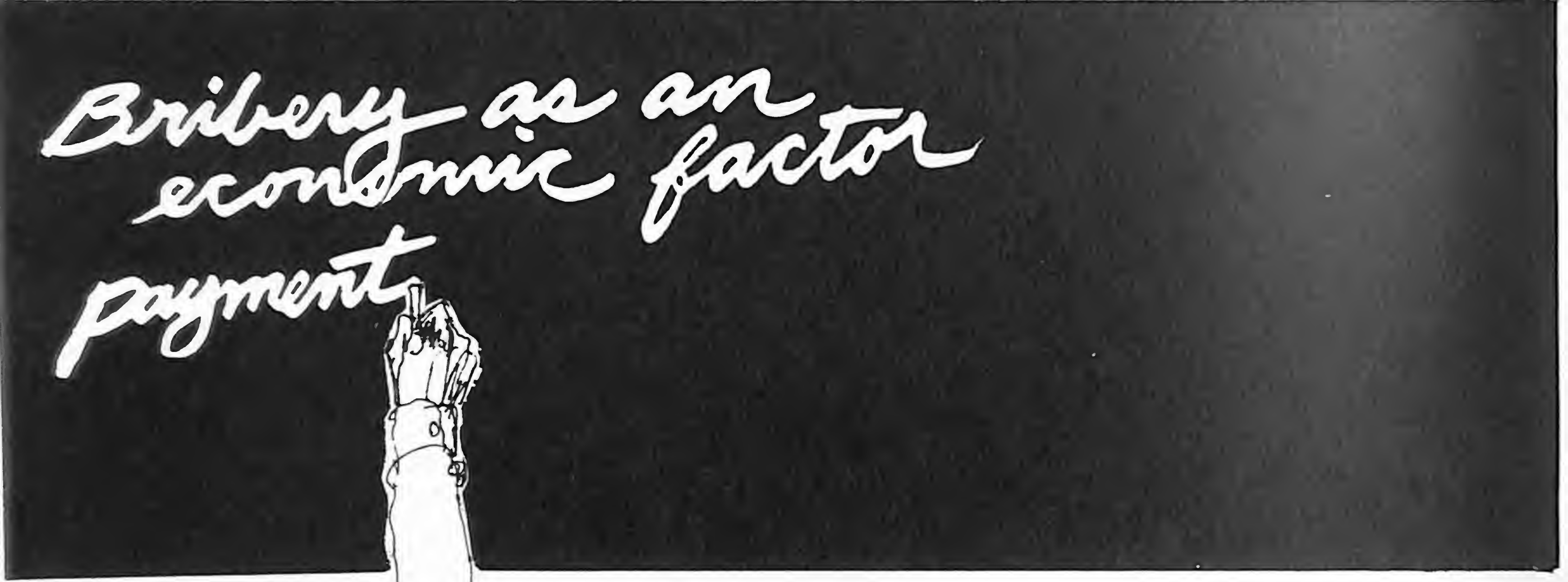
The leading Republican is Attorney General William Scott. However, Scott's indictment by a federal grand jury, for failure to report income allegedly converted from campaign contributions, has created uncertainty among Republicans. Scott will continue to be a candidate, but the trial will precede the primary. Peoria Mayor Richard Carver, State Representative Sam Skinner and former Federal District Attorney Cal Skinner are waiting in the wings and might renew their campaigns. Veteran congressman John Anderson has also thrown his hat into the ring.

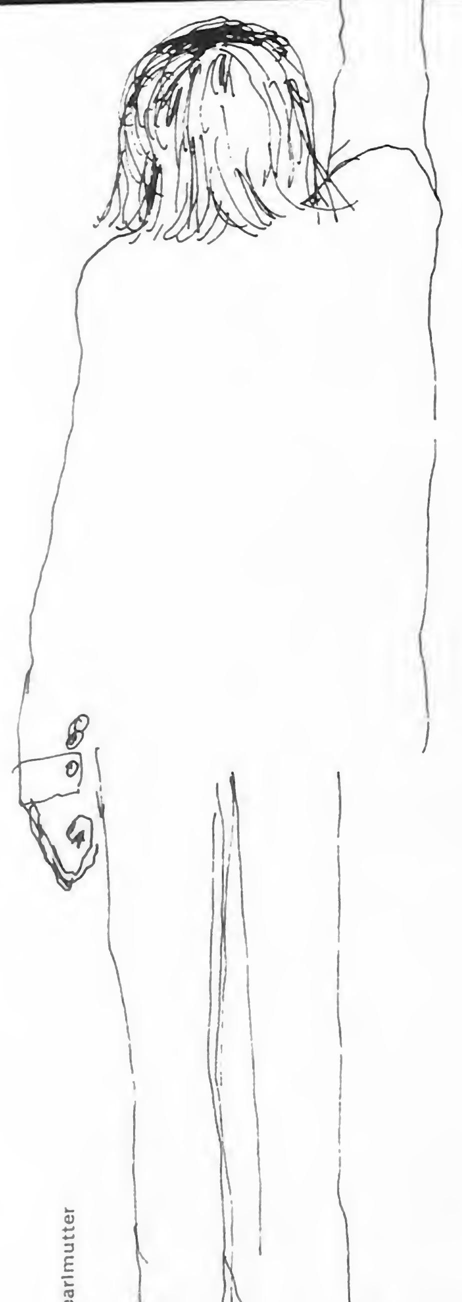
Social Profile of America



A new classroom scale reference chart that shows an accurate picture of economic realities in contemporary American society has been released by Social Graphics Co. The chart and the guidebooks are from Social Graphics Co., 1120 Riverside Avenue, Baltimore, Md. 21230. The chart is intended for teaching in high schools and colleges. It presents data about income, occupation, wealth, race and family status. In addition, for husband/wife couples, the occupation of each member is shown. The eight-color chart measures 45" x 35".

Bribery as an economic factor payment





Daniel Pearlmutter

by Stephen L. Slavin

Reports that Tongsun Park actually bought the United States Congress are greatly exaggerated. The latest rumors out of Seoul are that no more than three dozen Congressmen were ever on Mr. Park's payroll. But when the nation is still a little sensitive about the Nixon-Agnew scandals, it is not very reassuring to learn that our politicians can still be bought at such low prices.

So once again, that venerable institution, the political pay-off, is staggering under the burden of outraged vituperation inspired largely by the media. Indeed, only weariness with Watergate seems to have spared Mr. Park and his friends from further onslaught. A sense of fair play would dictate that bribery be given equal time and column inches to answer in appropriately alliterative adumbrations the dastardly charges that have been leveled against it.

An economic case may well be made in behalf of bribery, provided it were treated as a factor payment for a negative economic resource. Unscientific social scientists and untold numbers of uncorruptable government officials must share responsibility with the slanted news media for the shameful neglect of this vital aspect of political economy. But the true friends of bribery find historical clues which indicate still other culprits.

The fellow we tend to forget, once we've gotten past the required classics course, is none other than Plato. He suggested that our rulers be drawn from among the rich so that there would be no temptation to take bribes. Perhaps in an unconscious effort to follow the Platonic teachings, Americans have elected a large number of rich men to high office — the Kennedy brothers, Nelson Rockefeller, Averell Harriman, and the Roosevelt cousins. The exception, Spiro Agnew, has proven the Platonic rule: Never trust a poor man.

We need to go beyond Plato's suggestion that only the rich should rule. Most government business is conducted by millions of minor bureaucrats. It would be prohibitively expensive to provide each with a salary high enough to preclude corruption. A way must be found to neutralize the effects of this propensity to be corrupted.

When Boss Tweed ran New York right after the Civil War, the city was laying much of its network of water pipe. Contracts were let for relatively expensive and long-lasting brass piping, but predictably, city officials and private contractors substituted less expensive and much less durable pipes of galvanized iron. The difference in cost was, of course, shared by all concerned parties. Whatever that difference amounted to, it was negligible in comparison to the cost of digging up the streets in recent years to replace the prematurely corroded "brass" pipes. It would have been a lot cheaper for the city to have paid for the brass pipes as well as to have bribed officials to insure that it got what it paid for.

The payment of a bribe to do a job that should be done, but isn't getting done, is nothing more than a somewhat unsavory application of the concept of externality. An externality is a social benefit or cost which results from a transaction between private individuals. When these individuals do not act in a manner conducive to the social well-being, there is a case for government intervention. For example, the private cost of a disposable beer can might be one cent, but the

government, in an effort to promote recycling (i.e., the social welfare), might tax each can five cents or pay the user five if he returned the can for reuse. Similarly, government functionaries can be induced to act in the public interest.

We could bribe the police to arrest narcotics dealers and pay building inspectors a commission on each violation they report; government investigators could be occupied ferreting out those officials who arouse suspicion by not taking bribes. A new motto — "you get what you pay for" — could replace "In God We Trust," or perhaps even the flag itself. (Of course, potential flag-burners would have to be paid off, too.)

The narcotics problem lends itself especially well to our approach. The federal government has taken the first timid step by paying opium growers (heroin is an opium derivative) to grow less controversial crops. Why not pay the police a commission on all the hard stuff they bring in? Think of all the money we would save on the training of new policemen if the former bribe-takers could remain on the force working for us instead of the dealers.

The bribes, which we euphemistically refer to as commissions, should just exceed that which the dealers are able to pay. It would not be necessary to pay the police the full wholesale value of narcotics since the cops would neither be paid such large bribes by the dealers, nor be able to wholesale it themselves at the going price. Furthermore, there is an attraction, especially to peace officers engaged in questionable activities, to operate *within* the law.

Addicts could be paid substantial sums to turn themselves in for treatment. A \$100/day habit amounts to \$500 worth of burglaries, muggings, and other assorted thefts, since there's an 80 percent mark-down on stolen goods. If we could cut down on the supply of drugs by bribing the police, and the demand for them by bribing addicts, the social benefits would greatly exceed the social cost (i.e., the bribes).

Economists have provided us with a list of the factors of production — land, labor, capital, and entrepreneurial ability. Each of these factors, or resources, is paid a return — rent, wages, interest, and profits, respectively. In these days of big government, why not add a fifth factor, public resource misallocation, and its return, bribery? Since bribery results in a misallocation of resources much greater than the bribe itself, it would be cheaper for the government (and result in a more efficient allocation of resources for the society), if a bribe were paid to insure that the government did indeed get what it paid for.

A few cynics might be inclined to doubt the base motives of their fellow men. Others will declaim against covertly paying people to do the jobs for which they are already overtly paid. As a Lower East Side politician who used Tammany Hall as his launching pad once said, "Let's look at the record."[1]

In other societies, especially in several Southeast Asian countries with which Americans have recently become familiar, the bribing of public officials is tacitly considered as supplementary pay. To get governmental action, we too have been known to cross a few palms with silver. The idea suggests itself that governmental inefficiency is largely a product of relatively low pay.[2] It would be much cheaper to pay these people to do specific tasks than to pay them enough to work efficiently on a daily basis (or attract better workers).

Covert, so-called under-the-table payments have long been a standard American business practice. Rebates on railroad freight charges, call girls' services to help clinch business deals, payola to disc jockies, point shaving by athletes, and illegal corporate campaign contributions — these are only the tip of the iceberg. When navigating, it is generally a wiser practice to acknowledge the existence of icebergs than to ignore them.

The ends do not always justify the means, but if the means are going to be corrupt anyway, why not try to obtain the best possible results? To do this we would need to study the operations of every local, state, and federal government agency, and the patterns of resource allocation that result from these operations. Since this is largely an economic problem, such a study would best be left to economists. In the long run, this would save the public billions. After all, with so many economists thus occupied, we would be spared the poor advice we would have otherwise received in the running of our day-to-day business.

[1] Alfred E. Smith, who made this statement, subsequently dissipated what little credibility he had retained (if people looked at *his* record), by being so indiscreet as to run for President in 1928 as a Catholic.

[2] This is the view of Professor Elizabeth Durbin of the New York University School of Public Administration, who has been doing research in this area.

Stephen L. Slavin is assistant professor of economics at Union College in Cranford, New Jersey.


Jury to study Busch rebates

Japanese Bribe Inquiry Over McDonnell Sales

Class-Action Suit Filed Against Tiffany Industries

By EDWARD H. KOHN
Of the Post-Dispatch Staff

Corporate Payola

by Tom Kennedy

Over $48,000,000 has been involved in questionable business practices carried out by Missouri and Illinois corporations. A review of the records of the Securities and Exchange Commission (the SEC), the federal agency charged with overseeing the doings — and misdoings — of U.S. corporations, reveals that 26 companies operating out of these states have been charged by the SEC with shady transactions or have filed statements acknowledging transactions of dubious legality.

This considerable sum represents a wide scope of corporate improprieties, ranging from the ever-popular and time-honored practice of political payoffs to the trendier "foreign payments" brought into vogue by Lockheed and others several years ago.

Seven on "Fortune 500" List

The industries represented are no less diverse than their patterns of misconduct. This issue includes five of 23 Illinois corporations* who admitted a variety of misdeeds. They are: Abbot Laboritories, Apeco Corp., Baxter Brounds and Carson Pirie Scott.

The 13 Missouri companies involved, seven of which are on the prestigious "Fortune 500" list for 1977 of the nation's largest industrial corporations, include: a maker of, among other things, dog food (Ralston Purina Company, St. Louis); a bank holding company (Mercantile Bancorporation Inc., St. Louis); an aerospace firm (McDonnell Douglas Corporation, St. Louis); a large building materials and aircraft parts concern (General Dynamics Corporation, St. Louis); the world's largest brewer (Anheuser-Busch Inc., St. Louis); a gas and electricity company (Missouri Public Service Company, Kansas City); a metals processor (Diversified Industries Inc., Clayton); a chemical manufacturing giant (Monsanto Company, St. Louis); a builder of construction metals (Chromalloy American Corporation, St. Louis); another food giant (Pet Inc., St. Louis); a small manufacturer (National Recreation Products, Kansas City); a manufacturer of hospital and other work uniforms (Angelica Corporation, St. Louis); and a company that produces carbon steel pipe, electronic devices, and medical products (LaBarge Inc., St. Louis).

Five of the companies, Diversified, Anheuser-Busch, Missouri Public Service, General Dynamics and most recently McDonnell Douglas have been sued by the SEC in connection with their tainted business or political practices; others are or have been under investigation by the SEC and/or other federal agencies.

Mercantile Bancorporation also found itself pulled into the legal arena when its chairman, Donald E. Lasater, was indicted by a federal grand jury in Kansas City in 1975. He was charged with, and later acquitted of, dissembling to the grand jury during its investigation of a series of curious bond deals between Mercantile Trust Company, the major bank of the holding company, and the late J. V. Conran, southeast Missouri democratic political boss.

Neither the SEC nor the IRS, both notably reticent about such matters, are eager to discuss what, if any, legal action is planned in regards to the other companies.

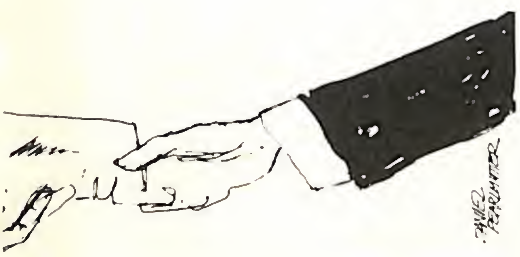
Naturally, the airing of this dirty laundry is a practice greatly frowned upon in corporate boardrooms. In a world where economic clout is matched in stature only by the egos involved, any hint of impropriety — or, at any rate, its public disclosure — had traditionally been suppressed.

Revelations of gross misconduct can quickly lead to expensive and time-consuming litigation brought by regulatory agencies such as the SEC or by predatory stockholders, ever anxious to bring down the ruling clique and realign management more to their liking.

*The next edition of F/M will contain details of transactions involving 18 additional Illinois companies: Interstate United Corporation; International Harvester Company; International Minerals and Chemical Corp.; Morton-Norwich Products Inc.; Motorola, Inc.; Northwest Industries Inc.; Pullman Inc.; Quaker Oats Co.; Katy Industries Inc.; Signode Corp.; Spiegel, Inc.; Standard Oil Co. (Indiana); Stauray Corp.; UAL Inc.; UOP Inc.; Trans Union Corp.; Walgreen Co.; Wm. Wrigley Jr. Co.

Confessing — Voluntarily?

Why then, one might well ask, have literally hundreds of corporations been rushing to their account ledgers, pouring over dated figures and interviewing company personnel in an effort to document their misbehavior? And



then blithely sending along the damaging results to their adversaries at the SEC? The answer, in large part, lies in an ingenious carrot-and-stick approach devised by the SEC to nudge the obstinate companies into 'fessin' up — the so-called "voluntary disclosure program."

Incidents of corporate contributions to federal politicians and candidates for national election — stringently controlled by federal law — and to officials of foreign governments first leaped into prominence during the Watergate hearings.

Revelations of huge donations in the early 70s to the renowned Committee to Re-elect the President by American Shipbuilding Co., American Airlines, and others prompted the SEC, under its wide-ranging mandate to police corporations and protect the investing public, to investigate such practices. It quickly discovered a seemingly entrenched pattern of bribes, fraud and kickbacks indelibly weaved into the pattern of U.S. corporate structure. So widespread did these "questionable" practices appear to be that the SEC soon realized the futility of its task. To search out, identify, and bring to a halt all such activities would be woefully beyond the comparatively meager resources (about 1900 employees nationwide as of November, 1978) of the Commission. Other measures were called for.

As its investigations were unfolding in late 1974 and early 1975, the agency made some public rumblings suggesting that corporations who felt they might have engaged in any "questionable" activities should mount their own investigations. If these investigations revealed any such goings-on, the company was invited to discuss the question of "disclosure" — i.e., telling the public. This suggestion, and the procedures developed by the Commission to guide the companies as to what it feels must be disclosed and how, has come to be known as the voluntary disclosure program (the VDP).

The "stick" part of the program was outlined quite eloquently in "The Report of the Securities and Exchange Commission on Questionable and Illegal Corporate Payments" presented to Senator William Proxmire's Senate Banking, Housing and Urban Affairs Committee in May of 1976. The report notes, in one part, that the SEC "suspects that some companies have engaged in similar activities that will remain undisclosed and undetected, and that others will attempt to obscure such activities in the future. We can only state that these companies run a substantial risk of discovery, since the cooperative efforts of the various agencies of the federal government are being brought to focus increasingly on these questions and the expertise and sophistication of law enforcement agencies in discovering these activities is steadily growing."

The "carrot" aspect of the program is more subtle. The Commission, one of the most respected of federal agencies, does not and would not offer any tangible rewards to companies willing to go along with its game plan. Any sort of a "deal" offered to a company in such a case would be, if not slightly redolent of extortion, highly suspect, just as it might seem to be for a public prosecutor to offer a "deal" to a getaway-car driver if he turns state's evidence on his bank-robbing buddies. That is why that never happens in those types of cases, either. Of course, should some companies choose to believe that they'll be better off by biting the bullet and making public disclosure — well, like they say, it's a free country.

One of the prime targets of the SEC's efforts towards corporate disclosure and one of the most common of the questionable practices indulged in by corporations is the corporate political contribution. Three Missouri companies have admitted or have been charged with misapplying at a minimum some $300,000 in connection with political contributions.

Tom Kennedy is a researcher for Charles E. Simon and Company, specialists in SEC research and retrieval.

Missouri Public Service Company

The first Missouri company to bear the full brunt of the SEC's formidable legal clout was the Missouri Public Service Company (MPS), a gas and electricity utility that services some 24 counties in the western part of the state.

On February 27, 1976, the Commission filed a complaint in the U.S. District Court in Kansas City alleging that MPS and a club composed of its top corporate officers had "charged or caused to be charged as salary expenses on the books and records of Public Service certain sums of money which were in fact unlawful political contribution funds." The complaint set the amount of such contributions at $51,865. A second count charged that the defendants had filed "false and misleading" proxy statements by not reporting the alleged slush fund.

Usually when corporate offenders find themselves hauled into court in such cases, they take the easiest way out by filing a "consent decree." The company agrees to waive any finding of fact or conclusions of law and the right of a trial. Furthermore, it agrees to abide by certain SEC stipulations, such as establishing a special review committee to investigate any unlawful use of its funds for political or other purposes and to report the findings to the public. It also agrees to refrain from this type of activity, all without having to admit or deny the validity of the SEC's charges.

This convenient arrangement, actually a compromise, enables the SEC to dispose of a case that it would otherwise have to fully investigate and prosecute at an unacceptable expenditure of time and money. On the other hand, the companies can avoid the worry of any additional dirt dug up by a full-scale SEC investigation and the probability of stiffer penalties in the event of a conviction. Also, the "I'm-not-saying-I-did-anything-wrong-but-I-won't-do-it-again" phrasing of the carefully-worded agreement gets the company somewhat off the hook with the public and the business community. Technically, they have not admitted any wrongdoing. MPS signed such a consent decree to resolve the SEC suit.

The focal point of this SEC complaint was the Western Missouri Good Government Club, a loose-knit organization composed of top company personnel which had already been the target of legal proceedings the year before. In that action, the state attorney general had charged that, through a salary arrangement with club members, MPS had made "direct or indirect contribution of corporate monies" to politicians in violation of state law. The company signed an agreement and paid the state a penalty of $28,413, an amount equal to the sum of all political contributions made by the club since July 1, 1972.

The club and its activities were more amply examined, as expected, in the report of the Review Committee ordered by the SEC as a part of the consent decree. What the Commission undoubtedly did not expect were some of the conclusions drawn by the committee that refuted any notion of wrongdoing on the part of MPS or its officers.

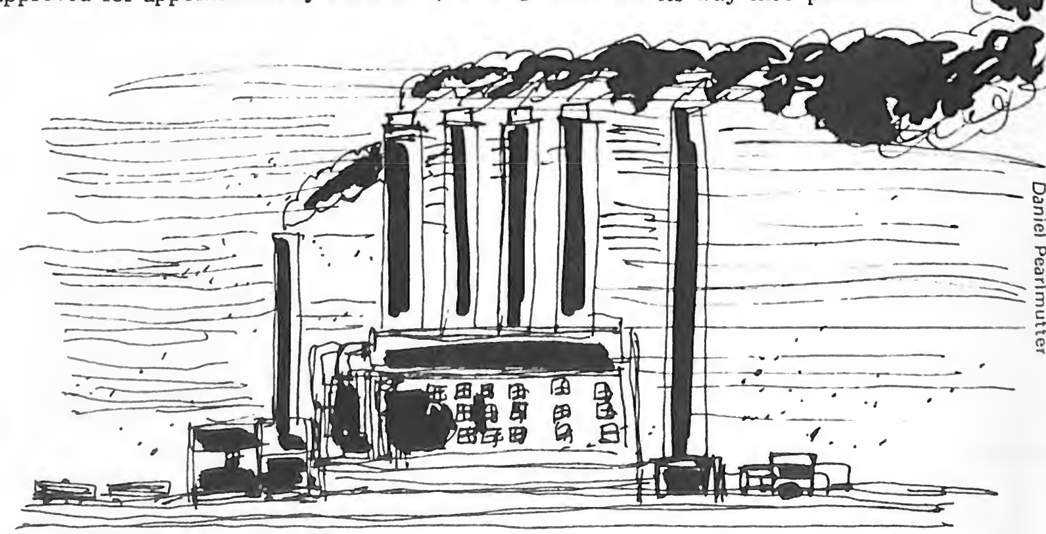
The Review Committee set up by the company was composed of one ex-director and one current director of 40 years standing, both of whom claimed no knowledge of the events in question until the time of the suit of the Missouri Attorney General. Despite the fact that both men had been named in a shareholder's suit seeking to recover $74,414 of the political contributions, they were approved for appointment by the SEC attorney handling the case. Legal and accounting help not under corporate control were enlisted to aid the committee.

On June 26, 1976, the committee delivered its report of club doings, replete with fulsome accolades for its civic-minded employees and the Company's heartfelt desire — nay, "responsibility" — to encourage them "to participate actively in civic, charitable, and governmental affairs." The founding of the club was deemed consistent with that responsibility.

As described in the report, Western Missouri Good Government Club was founded in 1968 by 69 top company personnel, including about six company officers. In order to make contributions to the 1968 elections, five Club members signed a promissory note on a $5,000 loan. According to the report, four of the five were company officers, including Richard C. Green, the company president.

In early 1969, "several club members" came up with "an easy, or at least simple, method of funding their activities" — an automatic 1% payroll deduction plan. As was the case of individuals joining the club, the report asserts, "the payroll deduction plan was the voluntary act of each of the affected individuals." Indeed, why should a mid-level management employee feel obliged to participate in a scheme simply because it was conceived and implemented by the corporate elite?

Of the $66,943 deducted from the members' salaries, a total of $51,865 managed to find its way into political



Daniel Pearlmutter

treasure chests between 1968 and 1972, the report shows, with the vast majority ($41,005) spent on state elections. After all, MPS is a state-regulated utility. The remainder was evenly split between the federal and local levels. The recipients of the "voluntary" contributions were selected by the membership — as proposed by a five-man screening committee which included the president and two vice-presidents of the company. Naturally, control of contributions remained with the membership at large. "The committee has no reason to doubt the sincerity or good faith of top management and believes . . . the membership made its decisions without having been subjected to undue or improper influences." The report goes on to concede, however, that it was "unwise to permit members of top management to serve on the (screening) committee."

[MPS later updated its figures to reveal that political contributions totaled $58,585 through December 31, 1976. "Each contribution was normally in the range of $50 to $300 per candidate per election," it said. The company opines that it did not violate any federal campaign laws, although contributions to federal candidates totaled $5,850 before October, 1970, at which time such contributions were discontinued.]

The most disturbing event of the entire episode, as far as the SEC was concerned, occurred on March 24, 1969, when 59 of the 69 members of the club were granted a one-percent pay increase, retroactive to February 1, 1969 — the very day the "voluntary" payroll deductions began. This raised the eyebrows of more than a few of the suspicious types up in the Chicago SEC office. They probably could not discern the difference between this cute little end-run and direct corporate contributions, a definite no-no. Some even began to wonder, as had the Missouri Public Service Commission in 1975, if maybe the company might be on thin legal ice.

Not in the least, assured the report constructed by two men who shared between them 55 years on MPS's board of directors. It acknowledged that some of the same directors-officers (and large stock owners) who ran the company also originated, implemented and joined the Good Government Club. Some of those same men were also responsible for establishing the 1% "merit increase" that coincidentally began on the same day as the "voluntary" payroll deduction plan dreamt up by "several members of the club." Those same men oversaw the consent agreement with a federal court that called for a fine of $28,413.65 and an admission that "the one percent pay increase had the effect of offsetting the members' dues to the Club." Those same men allowed the company to consent, without admitting or denying any culpability, to SEC charges that "corporate monies were used for unlawful political contributions."

The report, however, concludes that the company made neither any direct nor any indirect contributions to political candidates since, the report asserts, the company did not "control the disbursements of (the Club's) funds." The pay raise "was consistent with established Company policy," although it is conceded that its timing "can most accurately be characterized as inept, involving an innocent error of judgment." (This last statement coming almost two years before Richard Nixon's memoirs.)

What action, if any, the SEC will take in the face of this apparent provocation is unknown. "We are aware of the report, we've read it," said James L. Sanders, the SEC attorney in Chicago who signed the original complaint. "Any action deemed appropriate will be taken at the proper time," he added with the SEC's customary circumspection.

The IRS had other ideas. In March of 1978, the company informed its stockholders that "(t)he Internal Revenue Service is in the process of reviewing the returns of the Company for the calendar years 1973 and 1974. During the course of this routine review, a question arose concerning the Club. The Internal Revenue Service is examining the relationship, if any, between salaries paid to employees who were members of the Club and the Company's deductions for employee compensation payments in the years 1969 through 1974. The years 1969 through 1972 had previously been reviewed, resulting in agreed deficiencies in 1969 and 1970 and agreed over assessments in 1971 and 1972. On November 25, 1977, the Company was notified by the examining agent for the Internal Revenue Service that he intends to recommend the Assertion of statutory civil fraud penalties amounting to 50% of the deficiencies for the taxable years 1969, 1970, 1973, and 1974, as ultimately determined." MPS intends to "vigorously" contest any penalties.

It is doubtful that, after two years, MPS will wind up in court again over its Good Government Club. Fifty-eight thousand dollars is, after all, pretty small potatoes in the world of corporate hanky-panky. The Commission might not even have bothered with them in the first place had it not been: 1) early in the era of voluntary disclosure; 2) a case involving domestic political payments; and 3) a case that would serve as a warning to other such civic-minded companies seeking to promote in like manner employee participation in our democratic processes. These objectives seem to have been met. The pay increase was rescinded in 1975, the report notes, and the figures given show that no campaign contributions were made by the Club in 1976 — a conclusion that is open to question, however, in light of MPS' later admission that "(c)ontributions by the Club to political candidates totaled $58,585 through December 31, 1976."

General Dynamics Corporation

Another Missouri company to become involved with the SEC over the political payments issue is General Dynamics Corporation. On July 8, 1977, the Chicago branch of the SEC filed a complaint against General Dynamics and Lester Crown, a director of that company and president of its wholly-owned subsidiary, Material Service Corporation of Chicago. The complaint charges that Crown in 1972 distributed $8,000 of his own money to others "so that they might make payments intended to influence members of the General Assembly of the State of Illinois in connection with proposed ready mix concrete truck legislation." Crown got his money back, the complaint says, after the legislation he tried to influence was vetoed later that year. Afterwards, however, Crown "provided an additional $15,000 of his personal funds to others so they might make payments to members of the General Assembly," says the SEC. It also charged him with directing "certain officers and employees" of Material Service to submit and receive payments on illegitimate expense account items. The money from the fictitious expenses, $7,600 by June 1973, was given to Crown as part of a plan to reimburse him for his outlays, according to the complaint. The Commission also charged that General Dynamic's 1974 proxy materials, in which Crown was first nominated for a directorship, contained "false and misleading statements" by not disclosing Crown's back-stage maneuverings.

The company and Crown both consented to a final judgment, neither admitting nor denying the charges. In 1976, Crown testified in federal court at a trial that saw five former and then-current Illinois state legislators sentenced to jail for accepting bribes to increase the legal weight limits for cement trucks on state highways. Also fined and placed on probation in the case were four members of the industry. Crown was granted immunity.

Anheuser-Busch

Not all illegality connected with alcohol leans toward the careening black sedan, chattering tommygun type of lawlessness associated with the Roaring 20s or with the senseless violence reflected in today's dismal murder statistics. In an industry so rigidly controlled by a web of federal, state and local laws and agencies, any competitive advantage is eagerly seized upon. The SEC has devoted a singular amount of its attention to this lucrative but concentrated industry and has turned up what seems to be a pattern of kickbacks, bribes, and questionable "discounts." Missouri is fortunate enough to have examples of both the receiver and the more blessed in the two separate cases of Pet Incorporated and Anheuser-Busch.

On September 2, 1976, Anheuser-Busch hinted at the scope of such practices when it admitted it had "extended allowances which may be subject to question" of $2,720,000 over a three-year period. The payments were made, the giant brewer said, because of "certain trade practices which were prevalent in the brewing industry and which were engaged in by the company for competitive reasons in order to maintain its position in the marketplace." The company reported that it was "confident" that some of the payments were properly made, but admitted it had not adequately identified the payments on its books in some cases and that it may be liable for certain "tax deficiencies." Some senior executives, later identified as August A. Busch, Jr., then chairman of the board, and August A. Busch III, the executive vice president and general manager, "were generally aware of the existence of certain of these practices."

The company's investigation, prompted by an informal SEC inquiry in 1975, also turned up "only two questionable political contributions (one for state and one for local), totaling $400." Busch claimed to have put a stop to all such goings-on in 1973, "except for minor payments of approximately $40,000 (later amended to $50,000) made in 1974."

Could the SEC have been less than convinced of the report's accuracy? On May 19, 1977 it filed a complaint against Anheuser-Busch alleging violations of the anti-fraud reporting and proxy provisions of the securities laws and calling for a review of Anheuser's investigation.

The SEC complaint sharpens the focus a little on the vague picture Busch had presented eight months earlier. Using the brewer's own figure, it charges that "Anheuser, directly and indirectly, has made undisclosed payments of approximately $2.7 million to wholesalers, customers, agents of customers and others" to hype beer sales. More specifically, it says the brewer made direct payoffs of $600,000 to Dobbs Houses, a division of Squibb Corporation, Host International, Inc., ARA Services, Inc.,

Sport Service Corporation and ABC Consolidated. The companies named run concessionaries at restaurants and refreshment stands at airports, ski resorts and sports facilities. The method typically used, according to the complaint, was paying for goods and services never received or paying inflated prices for legitimate goods or services. In one such exotic scheme, the SEC notes, the brewer overpaid by $120,000 a maintenance company which turned around and gave the money to a Busch retailer.

Another $1.9 million went to beer wholesalers as a reimbursement for their contributions to retailers, and $28,000 went to friends of retailers in phony business transactions, according to the Commission. Anheuser also was charged with making $250 worth of undisclosed political contributions.

The company, again without admitting or denying any of the allegations, consented to a "final judgment" that called for, among other things, the hiring of a "Review Person . . . who is satisfactory to the Commission" to fully examine "the procedures and methods utilized by the auditing Committee in its investigation." The results and recommendations of the review were to be sent to the SEC and the U.S. District Court for the District of Columbia.

But the foam had not settled yet. Anheuser-Busch later told its shareholders that, as a result of these disclosures, it was "under investigation by the Federal Bureau of Alcohol, Tobacco and Firearms for possible violations of the Federal Alcohol Administration Act, by a state agency for possible violations of state alcohol beverage control laws, and by the Internal Revenue Service."

The company's bar bill with the Bureau of Alcohol, Tobacco and Firearms (ATF) came to a cool $750,000. Both the SEC "Review Person" and ATF concluded that Anheuser's investigation of its activities was complete and that no further disclosures were necessary.

A grand jury was formed in St. Louis last August to investigate possible violations of the Internal Revenue Code in connection with competitive trade practices. Since the jury dismissed criminal tax violations, it is unlikely that any other governmental agency will pursue charges against Anheuser-Busch.

Pet, Incorporated

Pet, Incorporated, the huge St. Louis food concern (number 228 on the Fortune 500 list), didn't say whether or not any of Anheuser's largesse ever ended up in its pocket. But $2,191,000 from somewhere in the alcoholic beverage industry did. Pet, which finds itself in the booze business mainly by virtue of a number of subsidiaries that run liquor stores, told the Commission in May, 1977 of a number of "discounts, rebates, and free goods practices that had developed in the alcoholic beverages industry and in some areas of the businesses that had been acquired." In a nice overview of the industry at large, Pet explains how "a pattern of complex and confusing directives" resulting from the myriad regulations can play havoc with "normal price competition and result in higher prices to consumers." State laws imposing uniform prices that wholesalers can charge retailers, including prohibitions against discounts and rebates, are often defeated by wily entrepreneurs. In "an intensively competitive industry," the Pet report says, they found "practices evolving to circumvent the obstacles imposed by regulations." When Pet first got into the act in 1968-1970, states the report, some of its senior management became aware of these practices and found that they "appeared to have been widespread in the industry for many years."

In 1974, Pet told the Commission, it discontinued the receipt of all discounts, rebates, and free goods. It found that for fiscal 1974 "and the prior four fiscal years, allowances received averaged about $430,000 per year." The company said that all such kickbacks were properly recorded on the books for tax purposes, but sometimes "the source and nature of the allowances were not properly identified."

Another $41,000 worth of "alcoholic beverage promotional and advertising materials and reimbursements" wandered into Pet's backyard during fiscal 1975 and 1976, the report further discloses. The company discontinued receiving such items not, it said,

because it believed them to be improper, but "in the interest of avoiding controversy."

Pet claims in language virtually identical to that of Anheuser-Busch that the "cessation" of such practices did "not have a material adverse effect" on business. While it cannot be safely assumed that these statements constitute anything other than the high-minded corporate piffle in line with such a noble enterprise as voluntary public confession, the apparent paradox is noteworthy. Two businesses cavorting in roughly the same playground — alcoholic beverages — have given themselves black eyes by engaging in practices at opposite ends of the same see-saw. One dispensed "allowances," the other accepted "allowances." And neither found, after the fact, that it was necessary for business purposes to do so.

National Recreational Products, Inc.

Kickbacks that have the effect of lowering prices on goods with set prices seem to be standard in other regulated industries as well. National Recreational Products, Inc. engages shipping freighters to make shipments of its merchandise from the Far East to the United States. The shipping industry, much as is the alcoholic beverage industry, is tightly regulated. Fixed rates that shippers can charge customers make normal competition difficult. Rules, of course, are made to be broken. Payments from ocean carriers to shippers, above and beyond the set rates, are common devices to avoid the rate restrictions. NRP first became aware that it was a recipient of these questionable payments from information provided by a former officer and director between July 1976 and February 1977, the company says. They conducted an investigation of such payments that covered the previous five years.

Payments from ocean freight carriers totaled some $53,042 over the period investigated. All but $10,000 of that sum, according to the company, were "reflected" on the books of the subsidiary's officers in the Far East that received the payments. The $10,000 not recorded was received in cash by a former officer of Irving Weather-Rite, Inc., a subsidiary of NRP, on behalf of the company. The money was spent on proper business matters, according to what the former officer told the company, but, since he kept no record of it, the $10,000 never showed up on company books.

NRP found itself in trouble not with the SEC but with the Federal Maritime Commission, which oversees the shipping regulations that foster this chicanery. The company informed the FMC of the rebates received, and, as advised by its lawyers, expects it may be sued or fined by that agency to the tune of $50,000, at most. Their lawyers informed NRP that "neither the Company nor its officers and directors will be liable for criminal penalties under the Shipping Act (of 1916)," the company says.

Although "current officers and directors of the Company had no knowledge of the nature" of the payments before September, 1976, the company believes, an agent of the company continued to receive such payments through December, 1976 — three months after management ordered a halt. The agent had to pay the Company back, NRP says.

Mercantile Bancorporation, Inc.

Mercantile Bancorporation, Inc. was the first Missouri company to file reports of questionable payments with the SEC, though not directly as a result of the VDP. In response to "irresponsible and unjustified presentations of rumor" in the press, Mercantile sent a letter to its shareholders that commented on an investigation, ordered by the directors, of some bank dealings of a most unusual nature. That was on June 10, 1975.

Eight months later, the company disclosed the results of the investigation completed by their outside law firm, Thompson and Mitchell, and an outside accounting firm, then known as Haskins & Sells (and more recently as Deloitte, Haskins & Sells).

The first area investigated by Mercantile's audit committee concerned two malodorous transactions between Mercantile and well-known political figure J. V. Conran in 1968 and 1969. Conran, with money borrowed from the bank, bought some municipal bonds which he later sold to the bank through St. Louis stockbroker Joseph A. Glynn — at greatly inflated prices. The committee figured that the deal cost Mercantile Trust $135,000 and profited Conran to the tune of $75,000. (The bonds had also depreciated during Conran's tenure as owner, accounting for the discrepancy.) The committee also charged that the deal was engineered by Mercantile Trust's then-chairman, Kenton R. Cravens, who died before the start of the investigation.

The bank's troubles did not end there. On February 27, 1975, Donald E. Lasater, chairman of the board of Mercantile Bancorporation, was indicted for perjury by a Kansas City federal grand jury investigating such transactions. The grand jury alleged that the proceeds from the deals between Mercantile and Conran eventually wound up benefitting Warren E. Hearnes, then governor of Missouri. Lasater was forced to take a leave of absence, with pay, for the duration. He was eventually acquitted.

A second area of inquiry concerned a slush fund for political contributions set up by "a number of officers of Mercantile Trust," the report said. Contributions to the fund from 1968 to 1975 totaled about $80,000. The report found no arm-twisting involved, and concluded it "was neither illegal nor in any sense wrong," but that it had been discontinued because of publicity "which might be misinterpreted by the general public."

It seems Cravens had yet another scheme to indirectly funnel bank funds into the coffers of amenable politicians. This one, says the report, cost the bank $97,300. Cravens set up a trust fund, known as Charpol Trust, installing son-in-law William J. Phelan, Jr. as sole trustee. Named as grantor of the trust was Joseph Glynn. Unless there are two St. Louis stockbrokers with the initials and surname J. A. Glynn, both of whom were involved with Mercantile's wheeling and dealing, this would be the same stockbroker who handled the sale of Conran's overpriced municipal bonds to Mercantile in 1968 and 1969. Apparently Glynn had clipped the bank for $15,000 by the same scheme in 1964, this time for the benefit of Charpol Trust. Mercantile Bancorporation's "Form 8-K Current Report" filed with the SEC on June 10, 1975 indicates that the bank bought municipal bonds from Charpol "at a price apparently in excess of the market price" at a profit to the trust of $15,800. The report of the audit committee pegged the bank's losses on all securities transactions at $46,000. Other losses incurred by the Bank through low-interest loans, interest-free "advances," and costs to the Bond department totaled $51,300.

In all, the bank had made loans and advances to Charpol of some $3.5 million, the report found. A review of Charpol's checking account shows that Craven had garnered some $174,000 to pass out to his political cronies or any other "charitable contributions" for which the trust ostensibly had been set up. The committee notes that it was Donald Lasater who effectively ended the bank's dealing with Charpol, and that it "is convinced that Mr. Lasater acted in the best interests of the Company at all times."

Mercantile's latest filing of questionable transactions came on the heels of the audit committee's report. Another letter to shareholders, dated March 31, 1976, from the chairman of the board mentions certain loans made to individuals associated with banks doing business with Mercantile Trust. Comparing the interest rate charged on the loans with the standard rate, the chairman notes that Mercantile lost out on some $285,000.

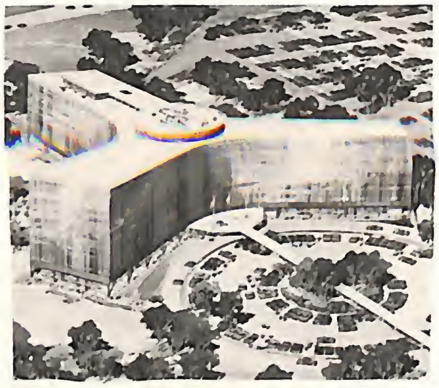
The letter was signed by Donald E. Lasater.

Monsanto, McDonnell Douglas, Chromalloy American, Ralston Purina

Another area of shady fiscal maneuvering that greatly concerns the SEC is questionable payments made overseas. Missouri businesses, rising to the occasion, have not failed the Washington watchdogs in that regard, either. Monsanto, McDonnell Douglas, Chromalloy American, and Ralston Purina have filed documents with the SEC that acknowledge a total of more than $19,000,000 of questionable foreign payments or unrecorded foreign bank deposits.

Sums range from the relatively paltry $342,000 admitted to by Chromalloy American to the whopping $18,000,000 or so McDonnell Douglas (MDC) has acknowledged was paid in dubious overseas commissions. The aerospace firm's lawyers (Byron, Cave, McPheeters & McRoberts) concluded an investigation in September, 1975 that found "in a few instances during the five and a half years ended June 30, 1975, portions of commissions on commercial aircraft sales appeared to have gone to foreign government officials or officials of government-owned airlines." The figure mentioned was $2,500,000. This intelligence was immediately released to the SEC, says McDonnell, which promptly launched its own investigation, as did the IRS and later the Federal Trade Commission and the Department of Justice. The company said that the government investigations extend from January 1, 1967 through 1975, and have yet to be completed. No false bookkeeping and no violation of U.S. law was involved, says the report. No mention was made at this time of whether or not management was aware of the practice.

The SEC's investigation resulted in a civil complaint filed in December of 1978. In order to "avoid the burdens and disruptions of protracted litigation," MDC consented, without admitting or denying the Commission's allegations, to a Consent and Judgement that required them, among other



things, to detail certain overseas "commissions" that might be more appropriately construed as bribes.

In its report, the aerospace giant acknowledged that it made some $10.6 million in payments related to airplane sales in 13 foreign countries, much of which wound up in the pockets of foreign government officials. The rest of this sum either went to or is suspected of having gone to officials of privately owned foreign airlines.

In addition, the company has agreed to set up a Special Review Committee, pursuant to the terms of the Judgement, that will investigate an additional $7,229,960 in payments related to sales in Kuwait, Iran, and Japan. The Special Review Committee will report on these and any other payments "as is appropriate," MDC says.

A little under-the-table cash to the right government or private official to land a sales contract is nothing new in the fiercely competitive aerospace industry, where a single sale can mean revenues of hundreds of millions of dollars. Other monsters in the business, such as Lockheed, Grumman, and Northrop, to name but a few, have all been involved in similar practices.

In dealing with huge sums of money such as those involved in MDC's commission payments, it is not always possible for a company to determine exactly how much money, if any, went to which foreign official. Such was the case as outlined in McDonnell's report. During the course of its four investigations into foreign payments, the company was on occasion able to certify that all or part of certain payments were made to certain government or private officials. In other instances, inconclusive information was uncovered that merely suggested such a conclusion. At the SEC's behest, MDC reported on both types of transactions.

The largest single questionable payment reported by the company involved $3,300,000 paid to a Korean trading company in connection with commercial aircraft sales of $76 million to a Korean airline whose top officials also controlled the trading company. Some of the money may have gone to the airline officials or to the Korean government or its officials, the report says.

In another instance, commissions of $2,080,000 in connection with commercial aircraft sales of $47,000,000 to a government-controlled Venezuelan airline were paid to two "entities" controlled by MDC's representative, a Venezuelan businessman who was closely related to a then airline official. The company later learned "that $662,209 of the above commissions were apparently paid by the representative to two relatives of a then second airline official," the report states.

Some of the other payments mentioned in the report, portions of which may have gone to government or airline officials, included: $1,250,000 in Pakistan; $400,000 in the Philippines; $360,000 in West Germany; $275,000 in Austria; $250,000 in Mexico; $115,000 in Japan; $100,000 in the Netherlands; $1,075,000 in Zaire, and $48,000 in Argentina.

In addition, the Special Committee will investigate $929,960 paid to its representative for Iran, $4,500,000 to its representative for Kuwait, and $1,800,000 paid in connection with aircraft sales in Japan. The company has no information to indicate that these payments were at all improper, the report states.

The Special Committee will also address itself to the question of the extent to which members of senior management were aware of these questionable payments. MDC to date acknowledges that some members of former and current senior management "had varying degrees of knowledge" concerning payments.

"There were no slush funds, no unrecorded asset accounts, no illegal political transactions, and no questionable domestic payments of any kind whatsoever, and neither the SEC nor any other government agency, commission or department has claimed otherwise," the report says. MDC has taken steps to prevent the recurrence of any improper activity.

* * *

One headache for large multinational companies is keeping a tight rein on its many and far-flung subsidiaries overseas. Because they are so far removed from corporate headquarters, and so uniquely attuned to the local business practices and laws, many such subsidiaries can thwart financial controls and other restrictions imposed by parent companies and operate semi-autonomously — sort of like a kid that has gone away to college. Chromalloy American, number 216 on the Fortune 500 list, is an example of a Missouri Company that found itself bedeviled by the antics of one mischievous offspring.

Chromalloy learned in March, 1977 that one of its foreign subsidiaries had been pulling a favorite scam for generating unrecorded slush funds — paying bills for merchandise it never intends to receive and, after getting the cash back from the friendly supplier in on the scheme, sticking it in a secret bank account that it forgot to tell the home office about. (You may want to take a closer look at Junior's last $126 book bill.) During the years 1974 through 1976, some $342,000 was diverted by this method. Some $67,000 of this amount was paid out as "extra commissions" to an employee of a foreign government-owned business; the balance went as "additional salaries" to no more than eight of the subsidiary's own employees. (The most common rationale for paying parts of employees' salaries from unrecorded funds is to enable them to beat out foreign tax collectors.) None of these transactions were recorded on the subsidiary's official books, the ones the local tax people review, but no deductions were taken for U.S. taxes.

Chromalloy apparently doesn't have any qualms about whether or not its other foreign subsidiaries might be engaging in such unsupervised rascality. It informed its stockholders that "(a)s the described transactions had been discovered and disclosed to the (company) through internal procedures developed by the Company, and as there were no indications of other undisclosed transactions of a similar nature, the Company did not further expand its investigation other than to obtain details of the aforementioned transactions."

* * *

Another potential ulcer inducer for big companies are the "facilitating" or "grease" payments which can run afoul of the Foreign Corrupt Practices Act of 1977.

Much as it is accepted in this country that waiters and waitresses are paid a relatively low hourly wage in light of the tips they receive, notoriously underpaid civil servants abroad often rely for a living wage on surreptitious handouts from those who've fallen prey to their little corner of the bureaucratic juggernaut.

U.S. corporations doing business in foreign countries face innumerable "official procedures" required to set up their operations — passport approvals and duty clearances on imported machinery, to name but a few. All this official stamping, initialling,

and assorted paper shuffling, handled by a corps of low-level foreign government clerks, can take a little time or a lot of time. Ten bucks in the local currency, casually inserted between the pages of the requisite "official forms," can assure a businessman that those all-important papers don't get lost.

But the Foreign Corrupt Practices Act prohibits any bribe, no matter how small, to any foreign government official. In a slight salaam to the real world, however, the bill provides a loophole for these types of payments. While the law does not permit grease payments *per se*, its definition of a "foreign government official" excludes governmental employees "whose duties are essentially ministerial or clerical." [Translation: "Business is an honorable profession. Bribery is dishonorable. Some forms of bribery are less dishonorable than others."]

The problem for U.S. companies seeking to abide by Foreign Corrupt Practices Act? At what precise point does a foreign governmental employee cease to be a minor clerk and graduate to the ranks of officialdom?

Ask Monsanto. They'll have to figure out the answer. The company, according to Fortune the 44th largest corporation in the U.S. and the largest in Missouri, told the SEC in a report dated November 3, 1976 that it would continue "facilitating payments" that it had been making in certain foreign countries. These payments, amounting to $73,200 between January 1, 1971 and June 30, 1976, were made by two of Monsanto's foreign subsidiaries "to customs employees to expedite or assure the performance of customs clearances which it is their duty to perform," the report said. Monsanto concedes that some company officers "may have been generally aware of this widespread custom."

The bulk of the remainder of the $660,944 Monsanto deployed in questionable areas overseas was the $291,300 spent on "questionable or improper foreign commercial payments." Included in this figure is a disturbing $12,800 paid by two foreign subsidiaries to union leaders in

Monsanto

that country. The payoffs, spread out over the five and a half years covered by the investigation, went for "information and goodwill in connection with the union negotiations and other labor matters," the report demurely states. These practices, it is claimed, have been discontinued.

Government employees and politicians in foreign countries always seem to wind up with dirty fingers when the corporate grab bag is opened — perhaps even more so than our homegrown variety. Monsanto claims it has shelled out some $170,000 in "questionable or improper foreign governmental payments" during the period covered by its investigation. In two foreign countries, the report says, $39,700 was paid in bribes to government purchasing agents. Such practices, "considered to be improper," have been discontinued, notes the report. Another $62,600 in "payments" went to workers in a government research institute that was testing a company product, which, one might assume, garnered favorable results. This practice, deemed a mere "questionable," has also been stopped, according to the report. The rest of the money donated to foreign government officials, $67,700, was spread out among seven countries and involved foreign lawsuits, taxes, and import and export matters. Monsanto hints that not all of these payments were made improperly, and makes no mention of whether or not they have been discontinued.

Except in one instance, claims the company, the investigation "did not indicate" that any corporate officers knew of or authorized these payments. As in the case of Anheuser-Busch and Pet, the company suggests that the cessation of these practices will not have any substantial adverse effect on business.

Why, such being the case, the company felt these bribes had to be made in the first place is left to the readers' imaginations.

Another all too common corporate peccadillo that the SEC gets testy about is the existence of bank accounts that, for some reason or another, fail to show up on a company's ledgers. The Commission, ever a stickler for neat figures, vastly prefers every business transaction to be duly recorded on the books — a practice some companies occasionally find inconvenient. Monsanto's investigation found a total of $126,444 kept in or disbursed from "unrecorded cash or bank accounts" held by three of its foreign subsidiaries. Most of the funds paid out by these accounts went towards what the company vaguely terms "employee benefits." All the accounts were terminated before the start of the investigation, says the report, with any remaining funds switched over to recorded accounts. "The investigation did not indicate" that any Monsanto officers were aware of these "offbook accounts," nor that they were "used for the personal gain of any employee."

Monsanto proved unusually parsimonious when it came to handing out freebies to its fellow countrymen, the report indicates. After documenting some $660,944 worth of goodwill dispensed beyond our country's shores, the investigators could find only a scant $2,355 in payments or goods provided to American politicians. (Lest the company be thought somewhat ungrateful, however, perhaps the scope of the investigators' task should first be taken into account. Four men, all employed by Monsanto, were charged with investigating some five and half years' doings of a company that employed 61,903 people and had sales of $4.27 billion in 1976 alone. Surely they can be forgiven if they managed to overlook any local pols on the take.) The investigation turned up four employees who "improperly reimbursed themselves in a total amount of $230 for their personal contributions to . . . a candidate for federal office." This sum and another $1,375 given to federal candidates by a plant manager (the money came from funds "improperly diverted from company sources to a personal checking account") was repayed the company by the employees. The report recounts another incident whereby "a municipal official of a town where the company has a plant asked for and received a Company product valued at $750." No mention of restitution is made, but the report does note that the investigation "did not disclose" that the gift was made "to secure any improper benefit." It also states that the two cash contributions "are not regarded by the Company as corporate political contributions," and that they transpired without management's awareness. The investigators could find no instance of any "questionable or improper commercial payments in the United States."

If Monsanto is to be deemed an ingrate for its tight purse strings for domestic politicians, Ralston Purina has to be considered almost unpatriotic in this regard. Of the $166,500 involving questionable practices to which it has admitted, all but a measly $500 escaped the clutches of American statesmen.

On August 24, 1976, Ralston reported to the SEC the results of an investigation begun on May 30, 1975, "in view of reports of such payments made by unrelated companies." It covered any "unlawful political contributions or questionable or irregular payments to any governmental entity or official anywhere in the world, since October 1, 1970." The report claims to cover Ralston, all subsidiaries and affiliates, and both direct and indirect payments. No mention is made of any investigation of questionable payments made to private concerns.

The $500 that miraculously escaped deportation was dispensed by a "former executive" on various political dinners, "some of which were related to federal and state of California election campaigns." The company reimbursed the executive, the report states.

Most of the remainder, about $154,000, was designated in the report as "improper payments . . . to various foreign governmental officials" by six of its foreign subsidiaries. In language stronger than that usually found in communications with the SEC, the cereal and livestock feed conglomerate charged that some of the payments were made "under circumstances amounting to extortion by such officials." The balance was paid to officials for preferential treatment.

Certain other practices which did not involve government officials but which the company felt may have been illegal also cropped up during the probe. "One division and six foreign subsidiaries and affiliates . . . engaged in certain commercial and employee compensation transactions (buzz word here; read: foreign tax dodges) which appear to have involved violations of the law, and utilized improper accounting procedures which misdescribed such transactions." No dollar amount was pegged to these deals by the report, but it does claim that several company officers were aware of what one of the affiliates was up to. All of these procedures, as well as offbook funds of about $12,000 kept by two of the foreign subsidiaries, have been terminated, according to Ralston.

U.S. politicians, not to be outdone, will probably get their share one way or another. Ralston concedes that it "may" have "underpaid" its U.S. taxes as a result of such doings by about $19,000, "for which appropriate adjustments will be made." Its subsidiaries and affiliates may also be liable for foreign taxes, the report notes.

The company maintains that its investigation uncovered no evidence that its officers or directors engaged in any program of unlawful political contributions or illegal payoffs, knew or authorized any offbook funds for such a purpose, or had ever obtained any

personal financial benefit from any activity described in the report. Nothing exists to show that its financial statements filed during the period were substantially inaccurate, it is stated, or that Ralston's business would be greatly affected from the "cessation of questionable activity discovered." All such practices have been terminated, the report says, and "effective steps have been taken to prevent any recurrence." The staffs of the IRS and the SEC have been made aware of these matters, concludes the report.

Most of the bribes, kickbacks, and other questionable payments reported by U.S. companies, including those based in Missouri, involve operations in foreign countries in which, supposedly, laws and legal sanctions are more lax and local mores more amenable to scurrilous shenanigans than would be plausible under the American system. But isn't there a latent streak of at least chauvinism, if not racism, to be detected here? Consider the prospect of greedy, greasy "foreigners," grasping for "yankee dinero." Is that alien? Or ask yourself if you'd really be surprised to learn that an Arab shiek or two, fresh off their unconscionable plundering of American petrodollars in the latest round of outrageous oil price increases, would be only too happy to extort millions of dollars for their influence in landing a hefty airplane deal? Don't these images, lopsided as they are, appeal to the Archie Bunker mentality we all harbor to some extent? "They ain't Americans so they don't know no better."

Although perhaps not as prevalent as it is overseas, questionable business practices flourish in America as well. The cases of LaBarge, Inc., and Angelica Corporation will serve as adequate testimony.

LaBarge

In March of 1978, LaBarge (formerly known as Dorsett Electronics) completed an investigation of "questionable payments made by employees in connection with the purchase and sales of materials and products during the period January 1, 1972 to September 30, 1977."

The investigation unearthed a total of $167,204 (98% in cash) of "improper payments, some of which may have violated the laws of certain states." These payments were made within the U.S. by the employees of one of the company's four divisions. Increased sales were the objective of the hand-outs. LaBarge put the kibosh on an additional $4,000 in payments that had been slated for 1977. The total sales to the companies to whose salesmen and buyers the money was paid did not exceed 2.8% of the total LaBarge sales during the period investigated. And not all of those bribe-related sales "were dependent upon questionable payments," opines the company.

A word about the mechanics of these and payments in general here: the accepted technique requires a little imagination. One standard method of creating cash is to buy goods that you never end up receiving. The obliging supplier instead cashes your check, maybe takes a cut for his troubles, and gives you the rest back in cash — á lá Anheuser-Busch and Chromalloy's foreign subsidiary.

Another similar tried and true ruse is what might be called "the old let's issue a check to a third party who skims 20% off the top and gives us the rest in cash trick." Or, as LaBarge puts it: "the destination of the payments was in most cases disguised by the issuance of checks to third parties; these payees, retaining approximately 20 percent of the checks as a discount, cashed these checks for a Company salesman who made the proceeds available to pay the cash questionable payments."

The payments were entered on the company's books in such a way that "reflected the true generic nature of the payments," the report says, as

either the "cost of sales" or "costs of inventory." A perfectly legitimate accounting, when you come to think of it. A refinement on the rationale employed by the safe cracker who deducted his burgler tools from his taxes as a "business expense."

Since the payments were deducted as costs of sales or added to the costs of inventory in computing the company's taxable income for the years 1972-1976, LaBarge elected to inform an IRS agent then examining the company's records for the years 1975-1976 of their discoveries.

Two members of senior management (LaBarge tells us not who they are but who they aren't: "not the chairman of the board and chief executive officer, nor the vice-president, secretary and general counsel") were notified in "spring of 1976 (or fall of 1975)" that certain questionable payments had been made; no action was taken by those unnamed worthies until more than a year later in late August of 1977.

Appropriate accounting and administrative procedures have been introduced to prevent the recurrence of any more questionable payments, LaBarge says. The company also plans to revise certain aspects of its annual gift-giving program, a standard goodwill gesture indulged in by many companies. LaBarge found, however, that two "recreational trips" were given to a recipient of questionable payments; future gifts to personnel of customers and suppliers are to be "properly limited in value."

Angelica Corporation

Angelica Corporation has a similar tale to tell. It, too, conducted an investigation to determine the extent to which it had made any payments of questionable legality or propriety. Its review covered a period of six years beginning with February 1, 1972. The company discovered some $69,000 at the most that were or may have been "improper commercial payments" to purchasing agents, employees, or representatives of customers to foster business. Some $54,000 of this sum was paid in the U.S., the balance was paid in Canada. As was the case with LaBarge, some of the outlays "were recorded in a fashion not accurately reflecting the true nature of the transaction;" the payments represented an average of 2.5% of total sales to the relevant companies over the six year period (vs. a 2.8% ratio for LaBarge).

Other hijinks uncovered by the investigation included cash Christmas gifts totaling $1,200 over the period to federal and local government employees, including postal employees, mostly of $10 each, with none over $25. Some of these gifts (the total of which may be overstated) "may have been illegal," Angelica says. It terms "illegal" payments made by one employee, who was reimbursed by Angelica, to "a non-governmental official," whatever that is.

Some other irregularities were discovered involving the Canadian end of Angelica's operations. "Some Canadian sales taxes were underpaid and/or possibly overrefunded," says Angelica, "and in some cases the transactions were recorded on the Canadian subsidiary's books in a manner contrary to fact." (One possible interpretation of this cryptic corporatese: the books were doctored to beat out some taxes.) The tax deficiencies are not expected to exceed $40,000, and the appropriate Canadian officials have been apprised of the situation, Angelica says.

Also in Canada, the "country of origin labels" on some merchandise were removed prior to sale during a part of the six-year period investigated. One senior officer of the com-

pany was aware of this arrangement, Angelica acknowledges. Although this practice was "contrary to Federal Canadian law," Angelica expects no penalties will be assessed, nor does it expect any penalties to result from its tax deficiencies.

The company also notes that certain senior officers, including Willard L. Levy, John D. Levy, and Robert Gordon, "either were, or probably should have been generally aware that some of the" $72,900 of questionable or improper gifts or payments "were being reimbursed through improper expense accountings," although it was not deemed they should have been aware of the precise nature of the payments. No officer was aware of the tax situation in Canada, Angelica says. It has informed relevant employees that any further violations of its November 1976 Code of Business Conduct will constitute "grounds for immediate termination of employment and possible legal action."

Diversified Industries, Inc.

One more Missouri company has found itself entangled in the sensitive payments controversy. If a complaint filed by the SEC in the United States District Court in Washington, D.C. is accurate (some of these complaints are more accurate than others), Diversified Industries, Inc. can lay claim to the dubious distinction of being Missouri's leader in fiscal mischief, a true "superstar" in the world of corporate malfeasance.

The SEC complaint, filed November 15, 1976 and consented to by Diversified and its chairman shortly thereafter, suggests the logical extension of the corporate thinking responsible for the existence of "sensitive payments." The complaint alleges a chilling series of bribery, theft, outright fraud and, just for kicks, offers a glimpse of a vicious proxy battle, boardroom intrigue, and corporate power plays, a veritable capitalist soap opera — "All My Proxies," perhaps.

Names in the SEC's 31-page, 7-count complaint were Diversified, a number of current and former members of top management, Penn-Dixie Industries, Inc., a New York construction materials company, and its former president and chairman, Jerome Castle. Also named were JDL Trust and its owner, Detroit businessman Arnold Arnoff.

Diversified's annual report for the fiscal year ending October 31, 1975, as filed with the SEC, had an inkling of what the Commission would later allege to be a wide-ranging scheme of fraud, theft, and bribery totaling over $5 million. The report related to the findings of the Washington law firm of Wilmer, Cutler & Pickering, hired in May 1975 to investigate "irregular transactions" alleged to have occurred over several years at the company's Diversified Metals Division. The allegations were made "principally by a former officer of that Division" — possibly Morris Lefton, who headed the Metal Division until he resigned in 1974. The investigation was mounted, the report says, as part of a continuing investigation of Diversified by the SEC.

The lawyers' report disclosed the existence of two slush funds that contained a total of $270,000 between 1970 and April, 1975. The money for the accounts was raised "primarily by creating fictitious purchases or by causing employees to submit fictitious and undocumented business expense reports for which checks were written and cashed." At least $200,000 from these accounts went for business bribes (or, in the euphemistic prose of corporate lawyers, money that was "improperly paid from the funds to employees of entities having business relationships with the Diversified Metals Division in order to benefit the Division"). Thirty-five thousand dollars of the remaining $70,000 went on the Company books, but the other $35,000, as well as $5,000 in another offbook account at another Division, was unaccounted for. After having detailed these five years of chicanery, the report concludes this section with the perfunctory moralizing of the typical company policy statement, directing that henceforth no company assets shall be used "for any unlawful, improper or prohibited purpose."

Right.

On November 16, 1976, the SEC alleged in a civil complaint that Diversified Industries had bribed and defrauded its clients and their agents to the tune of $5,095,000. Furthermore, the charges against Diversified and its top management, their cohorts, Penn-Dixie and Castle, and Arnoff his Cayman Island Trust, JDL Trust, also outlines a complex takeover of Diversified Industries worthy of a Machiavelli.

Diversified is engaged basically in processing and manufacturing metals and metal products. Since 1968, the complaint charges, United Refining and Smelting Company, a wholly owned Diversified subsidiary, had been receiving scrap metal from its customers, removing as per agreement any precious metal. A company in this business normally then pays its customers according to how much precious metal was actually extracted from the bulk scrap provided. But United "misrepresented to its customers the amount of precious metal

actually recovered by reporting to those customers as the 'recovery' a weight substantially less than that actually recovered," the complaint claims.

The court action also charges that, since 1972, another Division of Diversified, Diversified Metal Products, got into the act at its end of the business, recovering nonprecious metals. "In sum," alleges the SEC, "during the period from fiscal 1974 through the first six months of fiscal 1976, inclusive, Diversified Industries wrongfully deprived its customers of approximately $4,695,000, the value of the metal 'shortweighted' by that company."

"Shortweighting" wasn't the only cute trick by which Diversified amused its customers, according to the Commission. "On at least several occasions," says the complaint, during the period from at least 1972, Diversified Metals sold copper shipments deliberately spiked with "such extraneous material as bricks, wood and cement."

It is one thing, of course, for a metals company to present its customers with gross underpayments or a bastardized product if, indeed, such was the case. It is quite another to get them to accept it. That Diversified managed to do so, if the SEC's allegations are true, not so much indicates Diversified's ingenuity so much as it confirms W. C. Fields' memorable adage: "My dear, remember. Never smarten up a chump. Never give a sucker an even break. And you can't cheat an honest man."

The complaint alleges that Diversified and, at certain times, the five company officials named, falsified records to put together a pool of over $400,000 at Diversified Metals and United Refining. Charges the complaint: "Such cash was used for, among other things, the making of secret payments to representatives of companies doing business with Diversified in order to (1) induce their acceptance of goods of lower quality or quantity than contracted for; (2) induce the companies to do business with Diversified; (3) obtain secret bidding information in connection with scrap purchases, and for other purposes." As with the incidents of

Diversified Industries, Inc. 1978 Annual Report

On November 15, 1976, the Securities and Exchange Commission (the "Commission") filed a Complaint in the United States District Court for the District of Columbia, naming as defendants, Diversified Industries, Inc., Penn-Dixie Industries, Inc., Jerome Castle, Ben Fixman, Arnold Y. Aronoff, JDL Trust (a Cayman Island Trust), Sam Fox, Morris Lefton, Jack Kootman and E. Allen Payne. In the Complaint against the Company and individual defendants Fixman, Fox, Lefton, Kootman and Payne, (all current or former employees of the Company), the Commission alleged, among other things, violations of Section 10(b) of the Exchange Act and Rule 10b-5, whereby (1) Diversified through at least two of its subsidiaries, United Refining & Smelting and Diversified Metals Company, and certain of the individual defendants, allegedly engaged in a course of business whereby Diversified's customers were underpaid and its customers were delivered material of a lower quality or quantity than actually due, and (2) during the period from at least 1971 to 1976, defendant Diversified, and at certain times included therein defendants Fixman, Fox, Lefton, Kootman, Payne and others, engaged, directly and indirectly, in a course of conduct whereby corporate records were falsified to generate cash totalling over $400,000 at Diversified Metals Company and United Refining & Smelting, two of the Company's subsidiaries. The Commission alleged that this cash was used for, among other things, the making of secret payments to representatives of companies doing business with those subsidiaries.

On November 16, 1976, the Company entered into a Final Judgment of Permanent Injuncton and entered into certain undertakings in a Consent and Undertaking, without either admitting or denying any of the allegations in the Complaint. Pursuant to the Consent and Undertaking, the Company, among other things, designated a Special Review Committee, consisting of Dr. D. Wallace Weil, President and Chief Operating Officer of the Company and a current director; Alfonso J. Cervantes, a current director; and John A. Shiell, a former director. The Special Review Committee, along with its special outside counsel, Harry O. Moline, Jr. of the firm Moline, Togethoff, Ottsen and Mauze, St. Louis, Missouri, has submitted its report to the Board of Directors, and the Board has taken such action pursuant to the findings and recommendations of the report as it deemed were warranted. As of the date of this filing, all present and former Directors, officers and employees of the Company who were defendants in this litigation have entered into a Consent Judgment with the Securities and Exchange Commission. While the report of the Special Review Committee has not been made public, it does not include any practices not previously disclosed and it has no material adverse effect on the financial condition of the Company.

The Company and certain present and former Directors, officers and employees were named in a suit, filed in June, 1976, as amended in September, 1977, by The Weatherhead Company. The suit was brought in the United States District Court for the Eastern District of Missouri.

On June 5, 1978, the Company, without admitting any allegations contained in the complaint entered into a settlement of such complaint with The Weatherhead Company. The settlement had no adverse effect on the financial condition of the Company.

On November 1, 1976, the Company sold Synthetic Industries, Inc. Pursuant to the terms of the sale, the Company received a $1,100,000 subordinated note, bearing interest at 5% over the prime rate of interest, from Synthetic. The note is for a period of five years and provides for quarterly repayments of $37,500, and the balance of $387,500 due at maturity. The purchaser has pledged as collateral all of the outstanding shares of Synthetic. Conditions for default under the note are (a) nonpayment of principal or interest under the note, (b) failure to pay out indebtedness for borrowed money to any bank, insurance company or finance company when due, and (c) a default not cured in any provisions of any other credit agreement of Synthetic. Simultaneous with the closing of the sale, the Company discounted, with its lending banks, the $1,100,000 note, with full recourse, at 1% over prime, which rate was changed to 2% over prime effective November 1, 1977. In December, 1977, the Company entered into an agreement with its lending banks and the finance company, whereby, the finance company has agreed to purchase the Synthetic note, with all rights to the collateral, from the banks in the event of a default by Synthetic. The Company remains contingently liable for this obligation. The note balance at October 31, 1978 was $837,500. The Company, at October 31, 1978 and 1977, had placed a certificate of deposit aggregating $215,185 and $205,071, respectively, in escrow to secure certain provisions under the agreement for the sale of Synthetic Industries, Inc.

At October 31, 1978, the Company has commitments aggregating $3,000,000 for the purchase of property, plant and equipment.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of October 31, 1978:

"short-weighting" and impure copper, the SEC claimed "the defendants individually participated in certain of the activities, knew of others, and should have known if they did not know of still others." The defendants were also charged with filing from 1968 on "false and misleading" proxy statements and annual reports that failed to list these activities and the individual defendants' role in them.

Finally, the SEC gets around to talking about some of the bad stuff it thinks these guys did. Count VII of the SEC complaint alleges a diabolically clever scheme engineered by Chairman Fixman and Castle that, if true, could serve as a textbook example of how to take over a corporation.

"In or about 1971 and 1972," the story begins, 'Diversified,' with Fixman as its chief executive officer, president, chairman and largest single stockholder . . . began experiencing large financial losses." As a result, the company's lending banks forced Fixman's ouster. Fixman designated Sam Fox as his successor, who began steps to reverse Diversified's decline. According to the complaint, Fox neglected to consult Fixman about corporate decisions. An incensed Fixman decided to depose Fox. As a first step, he approached Castle to propose a "friendly merger" of Diversified and Penn-Dixie. Penn-Dixie started buying

up Diversified's stock on the open market. Under Castle's direction, says the complaint, "by March, 1974 Penn-Dixie had brought its holdings to 300,000 shares or 4.9% of those outstanding, deliberately keeping its ownership under the 5% level in order to avoid the filing requirement of Section 13(d) of the Exchange Act." (Whenever you gain control of more than 5% of the stock of a publicly-held company, you have to inform the SEC of the fact, as well as state your future intentions.) Around the summer of 1974, Castle and Fixman decided to make their move. They considered a number of options, including a tender offer by Penn-Dixie for Diversified. Instead they decided on a proxy fight — a struggle for control of a company determined by who commands the largest amount of company stock. About this time, friends and associates of Fixman and Castle began snapping up large blocks of Diversified's stock on the market, according to the complaint.

By February 3, 1975, they were ready to show their cards. Castle, Fixman, Penn-Dixie and Fixman's wife filed the requisite forms with the SEC indicating their intention to oust Diversified's present management under Fox. At this time, the group held approximately 19.4% of the outstanding stock. Soon, their friends filed documents indicating their membership in the group. The cabal's stock holdings grew to 28.4%, the SEC claims.

Fox was done for. He resigned a month or so later. Castle and two of his hand-picked lieutenants joined the board of directors to which Fixman already belonged. In May, 1976, Fixman resumed the position he had held from the time of the company's founding in 1954 until he was temporarily routed in February 1975, that of Chairman of the Board.

"The failure of the Castle-Penn-Dixie-Fixman group to file the required Schedule 13D (the forms detailing the group's intention to try and change the management) facilitated the ability of that group and their associates to ultimately gain control of Diversified," says the report.

Diversified, "without admitting or denying any of the allegations," consented to the complaint. It agreed to establish a "Special Review Committee" which is to investigate and report to Diversified's board of directors and the SEC "provided, that it is expressly understood that Diversified shall have the opportunity . . . to apply to this court for a protective order concerning the public release of those portions of the Report which . . . would be harmful to the interests of Diversified." No other Missouri company had this stipulation in a consent decree. Diversified also agreed to amend its annual reports as needed from 1968 through 1975.

In its annual report for 1976, Diversified notes that it is facing lawsuits on three fronts connected with the practices alleged by the SEC.

Diversified was named a defendant in a suit brought by the Weatherhead Company that claimed Diversified bribed "one or more unknown agents, employees or representatives of Weatherhead to purchase or accept" scrap copper "allegedly of quantity and/or quality below that represented." Weatherhead seeks, among other things, $2 million in punitive damages, says the annual report.

Another suit by two stockholders alleges that because of the "short-weighting" practices and the "issuance of false and misleading financial statements" the company's earnings were artificially inflated. It seeks "appropriate damages as may be determined by the trial," says Diversified.

The 1976 annual report also claims that Diversified was named as a party to an action entitled "Leighton Block Company, (a shareholder of Penn-Dixie Industries, Inc.) Plaintiff v. Jerome Castle." The suit claims "Diversified conspired with Directors of Penn-Dixie . . . to cause Penn-Dixie to expend its funds to purchase Diversified stock for no purpose beneficial to Penn-Dixie." Notes the report: "Counsel for Diversified feels the claim is without merit."

Abbot Laboratories

Abbot Laboratories of North Chicago, number 200 on the 1977 Fortune 500 list of largest industrial companies, found a total of $631,643 mostly "sales commission-type" payments made to officials of foreign governments and quasi-governmental agencies when it investigated its transactions for the years 1973 through 1975. In addition, the company found $142,099 that was paid "in connection with certain other foreign governmental actions . . ." Abbot has formed a policy and instituted accounting measures designed to halt all such payments. A shareholder derivative suit alleging misconduct on the part of Abbott, its independent accountants, and 17 officers and directors was dismissed in November, 1976.

Abbott is in the business of development, manufacture and sale of health care products.

American Hospital Supply Corporation

American Hospital Supply Corporation (AHSC), of Evanston, Illinois, manufacturer and distributor of products and services used in the health care field, has been flirting off and on with questionable payments for the past three years. The medical equipment supplier first became aware of questionable payments in connection with a subsidiary's agreement to supply a Saudi Arabian hospital with medical equipment and supplies in 1972. The deal involved a "consulting agreement" with a shadowy "private company" operating out of Lichtenstein. Any company operating out of Lichtenstein triggers the same alarm bells for the cognescenti as does the term "Swiss bank account."

The company claims its management first was informed of this unusual arrangement in July, 1975. The SEC sued AHSC for failing to comply with its reporting rules by not disclosing the nature of the "consulting agreement." In consenting to the SEC complaint, AHSC agreed to mount and report the result of its own investigation of all questionable payments.

The investigation by AHSC's audit committee uncovered, among other things, $3,350,000 paid to the strawman consulting firm, between 1973 and 1976, payments of $877,000 "to customers and government and union officials" in Mexico, and in another foreign country, an off-books account through which $234,268 was funneled to fund other sensitive payments. A review of domestic shenanigans discovered $625 in illegal gubernatorial political contributions and a payment of $500 to a company partially owned by a mayor of a town in the U.S. Another contribution of $250 by a former AHSC officer to a U.S. senator in 1971, which was reimbursed by the company to the ex-officer, was also noted.

The 53-page report went on to detail numerous other questionable transactions — off-book accounts, currency control violations, tax avoidance, etc. — involving a minimum of $792,850 in 26 countries.

Notwithstanding the company's investigation, statements of policy, and numerous financial controls instituted to preclude future payments, the bogeyman won't seem to go away. AHSC in July, 1978, announced that it was investigating certain payments of about $1 million it made in connection with a $32 million hospital project overseas. The project had been reviewed during the course of the special investigation mandated by the SEC court action, but AHSC decided at that time that "further investigation" wasn't required. The payments are being investigated as a result of allegations by a former employee who is being sued by the company.

AHSC could find itself the victim of a double whammy if, as the ex-employee charges, the payments prove to have been improper. The Foreign Corrupt Practices Act of 1977 makes it a crime for U.S. companies to bribe foreign officials, either directly or indirectly. Also, the company, in settling the SEC's 1976 suit, agreed to a federal court injunction to take steps against such payments.

Apeco Corporation

Apeco Corporation, a maker of mobile homes, recreational vehicles and family boats, headquartered in Des Plains, decided to review its practices after its outside auditors tipped management to some unkosher dealings. The investigation uncovered some $211,000 paid to foreign government officials by two subsidiaries and $5,000 of the "trip expenses in 1977" of another official paid by a third foreign subsidiary. These payments were recorded on the books as "sales expenses or commissions."

The company also found $2,900,000 of "unrecorded taxable income" on the official books of a foreign subsidiary, most of which was transferred to another foreign country contrary to local currency control regulations. This subsidiary also had paid $60,000 as incentive payments to its employees without withholding taxes thereon, or paying foreign employee benefit taxes with respect thereto. Another $20,000 paid in cash by this subsidiary to a tax consultant may have gone to government officials, although the investigation uncovered no evidence to substantiate this suspicion.

Numerous other curious billing transactions and salary arrangements, involving at least $350,000, were also noted in the company's report on the investigation. These practices, which "may have facilitated evasion of local income tax and foreign currency exchange restrictions," were terminated.

The majority of transactions reported by the company involved false or misleading entries on books of account. Certain members of senior management of the company had knowledge of or acquiesced in a number of payments and practices. The company has adopted a policy statement designed to preclude any such questionable dealings.

Daniel Pearlmutter

Daniel Pearlmutter

Barton Brounds, Ltd.

Barton Brounds, Ltd., a Chicago distilling and marketing company, reported to its shareholders in 1978 that some of its employees have "engaged in practices, including the payment of money or other financial benefits to wholesalers and retailers, in possible violation of federal or state laws regulating the sale of alcoholic beverages." Thus it joins a long list of companies engaged in the alcoholic beverages industry that have acknowledged such practices.

The company has hired outside counsel to assist it in investigating the scope and detail of such practices with an eye towards future public disclosures. Both the Bureau of Alcohol, Tobacco and Firearms and the IRS have been apprised of the investigation. Ultimately, the IRS may challenge certain tax deductions related to questionable payments, the company claims. Other likely action includes possible suspension or revocation of licenses or permits by federal and state authorities, possible monetary liabilities, and possible charges of failure to make necessary disclosures under federal securities laws, Barton said.

In September 1977, Barton got a letter from the Bureau of Alcohol, Tobacco and Firearms charging that a former employee had violated federal laws in connection with "improper inducements" to trade buyers, the report states. To get them off their back, Barton made "an offer of compromise" that would include a payment by Barton of $7,500.

Baxter Travenol Laboratories, Inc.

Baxter Travenol Laboratories, Inc., a Deerfield manufacturer and seller of medical care products and the 257th largest industrial corporation in the U.S., began its investigation in late 1975 after senior management learned of two questionable payments made that year (73 managers of foreign subsidiaries in 14 countries and Baxter's officer-directors were personally interviewed).

The investigation, which covered the years 1970 through 1976, revealed $1,943,600 paid to relatives of government employees in ony foreign country to secure sales. Similar payments of $28,000 were made in five other countries.

Other payments of $136,800 were made to government employees or their relatives in three countries to spur action on $2,840,000 due the subsidiary for products sold to the government. Some $37,400 was paid in three countries to influence government action unrelated to sales. The company determined that no political contributions were made in the U.S. Other questionable payments, which Baxter declined to characterize, totaled $14,000.

Of the payments discovered, which totalled $2,159,420, about $1,150 was paid from a U.S. subsidiary and deducted on Baxter's U.S. tax return. The IRS was informed. Senior management, which was previously unaware of these practices, terminated the payments and adopted the perfunctory policy statement prohibiting future antics.

Microcosm of Corporate Life

What conclusions, if any, can be drawn from this quick gambol through the realm of sensitive payments by Missouri and Illinois corporations?

The first is that the practices employed by these companies are not restricted to the select thirteen. The nature and scope of these sometimes harmless, sometimes invidious goings-on are not anomalous, but rather typical of corporate misbehavior across the country. None of the amounts involved nor the purposes to which they were applied are at variance with the practices of other states' corporations. Nor would the diversity of the businesses engaged in by the Missouri and Illinois companies be at odds with a random national sampling.

Instead the world of financial duplicity revealed serves as a credible microcosm of the corporate picture writ large. The 13 Missouri companies that have filed documents concerning or have been charged by the SEC with questionable business practices represent perhaps one-fortieth of the national total. (In order to maintain a proper perspective, it should be noted that the 500-odd U.S. corporations so far involved with questionable payments and the voluntary disclosure program constitute only a fraction — 5% — of the 10,000-plus companies registered with the SEC.) As a scale model of the national picture, the Missouri companies serve as well as any other 13 representative examples.

What then is to be said about the national picture? Perhaps the most disturbing aspect of this complex problem is not any specific dollar amount involved nor even the disquieting pervasiveness of these practices. Perhaps the real issue is the moral implications of a philosophy of business that can so easily lend itself to a disregard not only of written law, but of the most basic of moral assumptions. One of the most ominous refrains heard in the litany of corporate misdeeds on file at the SEC is the childish rationalization, couched as it is in obfusticating legalese, of "everyone-else-does-it-so-why-not-me?" Should the business community become too obsessed with the concept of doing what has to be done to remain competitive, if it becomes inured to the fact that bribes, kickbacks and payoffs may not have to be irrevocable facts of business life, perhaps the issue of "sensitive payments" may one day be referred to as "the businessman's Watergate."

POEMS

orthopaedic shoes for Oedipus / *Paul Johnson*

if yr Hero walks pigeon-toed
he crawled so as a child
mornin's when he went on four
and now he does so as a man
skewed steps across the sand
with evening star in his mind
staff in hand he'll go on three
so don't call yr Hero gimp
don't say his stride's not free
he's waltzing a cosmic limp

Diehard / *Ernest Kroll*

Dow Jones hit
Carpe
Bottom at
The final
Diem
Bell. Buy! said
Standard and
Vita brevis
Poor. Buy! Buy!

Choices / *Betsy Adams*

The muscles the skin, the eyes the ears.
The tail gone, backbone supports me now.

Not then. Not at the edge of the ravine
before nightfall. Before I was able to name.
And rename. And play with the name of nightfall.

How far to come. The beaches open to a moonlight.
The edges only look steep, and are paintings
on a wall.

Here: six foot Here: ten stories of building.
To climb up to the third floor, to reckon with
the lab, the beasts who gander. To come out,

eventually:
I stand by the ravine long long times.

i have junkie love / *Paul Johnson*

i have junkie love
a moment in a car
my hand is reaching
for AM radio
in order to hear:
assonantal rhyme
of country music,
the latest hype –
commercial
or governmental –
peculiar humor,
gospel, if it's Sunday,
or Missouri,
even static
i have junkie love
whole days I've spent
boiling water
for endless coffee –
an efficient ritual:
turn on burner,
empty previous water,
fill kettle,
put on burner,
find cup and spoon,
find coffee,
unscrew lid,
measure one teaspoon,
add another half,
replace lid,
throw spoon in sink,
replace coffee,
stare at water,
remember it won't boil,
leave the room,
write a poem
for my junkie love,
forget it's boiling,
remember just in time,
return to room,
remove kettle,
turn off burner,
pour water,
find spoon,
stir,
throw spoon in sink,
bring cup to lip,
sip,
leave with coffee.
i have junkie love

POEMS

for Margaret Bourke-White / *shreela ray*

I'm not afraid of thieves.
My ghosts are safe whimpering
in their allotted corners.

I contemplate the anger of pigeons –
their ruffled feathers,
the necessity of cats and how
the boards shine their hard nails.

My eyes close over fish
swimming and spawning until
the rose-coloured day.
I recognize the face of someone
I thought missing.

Everywhere I look, the vultures grown
too heavy to fly, sun themselves.

To The Other Woman / *Meg Files*

He does not love you
Come stepping from our shower
beads of water falling off
you like whitewater's convergence
with a stone
Come lay yourself out on our rug
make a tufted snow angel
Come here and you are there
We will lay hands on your shoulders
sober your skin with coffee
lace our fingers to chair
you by our blue-striped sheets

You are there and his palms
may find the hump of your back
on my shoulders
your words dripping into the coffee
the blue veins
of your breasts on our sheets
I will not knot
our black towel between
those heavy dripping breasts
vacuum away your angel
He does not love you
or the stone of your body

Lamenting the Frogs near Moorhead, Minnesota / *Terry Nathan*

for Mark Rubin

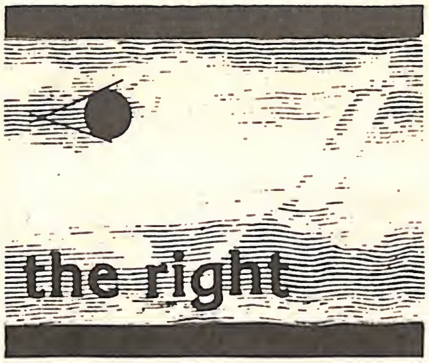
Later, winter will flatten these fields.
Topography useless. Tomosita calls
his dogs from the pond, bass fluttering
more slowly now. It is late November.
The first flakes of snow hide
like tadpoles from the sun.
Along the Red River, coons crouch like frogs
for waterspiders. Three green lumps
navigate the mud, singing soft as troubadours.

Tomosita, Tomosita, where are your frogs?
There are too few out to fish tonight.
No machinations or music to fill their lungs.
The bullfrogs grumpy, sleep for months. Tomosita,
they huddle in drifts of ice. Their legs
lost in motionless water, the details
of slow bones lonely for life.
But along the shore, eggs dance
like emeralds jelled in eyelets of the sun.
They are lonely for spring, lonely,
lonely at last.

Snow Poem / *Alan Toltzis*

From the laundromat
I watched Spruce St. whiten,
while an old woman begged me
to cure her old age,
protect her from commies
and be her nephew.

When age has snowed my hair white
and frosted my eyes,
may my days not drift
into a bank so deep
my heart freezes,
my sanity shivers
and my voice cannot plow through.



ANTI-ABORTION GROUPS COALESCE WITH RIGHTISTS

For several years there has been an affinity, at least, between special interest organizations opposed to abortion and those working the conservative side of the street in general. Often they have coincided specifically in political campaigns, such as that which defeated Senator Dick Clark of Iowa; but now they are allying more openly. A prime example comes from the camp of Phyllis Schlafly with publication of a pamphlet titled "The abortion connection," linking ERA with abortion. The connection had been there to some extent, but this declared it openly and will undoubtedly work in sharpening battle lines. The pamphlet quotes authorities (on both sides) on a link between the two issues and states that passage of ERA would require government funding of abortion. Similarly, the John Birch Society *Bulletin* recently plugged a pamphlet titled "Abortion and the Equal Rights Amendment" by Eileen Vogel, a leader of the Group Against Media Dishonesty on Abortion.

An indication of how the abortion issue is being worked into the organized right wing also comes from a "Pro-Life Political Action Conference" scheduled to meet in Chicago this May. Leading names in the movement will be there, such as Paul Weyrich, head of the Committee for the Survival of a Free Congress, and Morton Blackwell, editor of Richard Viguerie's newsletter, *The New Right Report.*

CONSERVATIVE CAUCUS

The Conservative Caucus, operated by Howard Phillips, has moved from suburban Washington to Boston, taking along its Research, Analysis, and Education Foundation, its Wake Up! America program and its American Legal Advocates. Morality in Media, an older organization which fights pornography, is sharing the new space.

"GOOD NEWS"

According to the Interchange Resource Center, the Methodist Federation for Social Action has issued a detailed study concluding that the leadership of the "Good News" movement "constitutes the presence and influence of the New Far Right in United Methodism today."

In its documented, 8,000 word report, the 72-year-old independent organization charges "Good News" leadership with concealing reactionary politics under a camouflage of "evangelical" concerns, thus taking advantage of many United Methodists of evangelical persuasion who would not wish to be used to support the New Far Right.

INSTITUTE FOR LABOR STUDIES

The National Conservative Political Action Committee has a new neighbor — the Institute for Labor Studies, a new group critical of unions. Its brochure emphasizes "criminal elements, Syndicates, crime figures and the mafia" in labor.

Funding for the Institute is to come from "corporate and foundation gifts, major individual gifts, and a large number of low dollar contributions from private citizens."

LINCOLN INSTITUTE FOR RESEARCH AND EDUCATION

The Lincoln Institute for Research and Education has been organized by J. A. Parker, allegedly to spread the views of the black middle class. Parker, a black, has been a leader of Young Americans for Freedom and a publicist for various conservative causes, such as Friends of the FBI and the recent visit of Rhodesian Prime Minister Ian Smith. His advisory board includes several non-blacks such as Senator S. I. Hayakawa (R-Calif.) and Representative Robert Bauman (R-Md).

PHYLLIS SCHLAFLY SPEAKS TO CARDINAL MINDSZENTY FOUNDATION

Phyllis Schlafly was the featured speaker at the Cardinal Mindszenty Foundation's 1979 Leadership Conference in April. Among other things, the Foundation opposes loosening controls on television networks, citing "M.A.S.H.," "Laverne and Shirley" and "Saturday Night Live" as promoting "immorality at the expense of Judaic-Christian principles and eternal truths."

U.S. LABOR PARTY EXPOSED

An article in the March 30 issue of the conservative *National Review* has exposed in depth the efforts of the U.S. Labor Party (which started in the late Sixties as a radical-Marxist organization) to find company and financing in right-wing groups varying from moderate to the radical Liberty Lobby.

It was written by Gregory F. Rose, a party member from 1973 to 1975 who started informing for the FBI but has since broken completely. To be more precise, he was a member of the National Caucus of Labor Committees, the proper name of the group whose political arm is the U. S. Labor Party.

Rose details how the group, with the aid of fronts, worked hard at penetrating the right wing — as well as working with the Soviet mission to the U.N. and the Palestinian terrorist movement. He reports no success in the case of the John Birch Society and most conservative groups, in fact, JBS has publicly repudiated the movement, as has the Viguerie network known as "the new right."

But Liberty Lobby apparently became a willing partner. The author asserts that NCLC "met regularly" with Willis Carto, the veteran operator of the organization, to attack the Rockefellers (the major target for years of both groups) and "to procure funding for these operations" and the 1978 presidential candidacy of Lyndon LaRouche, head of the U.S. Labor Party and NCLC.

Observers of political movements have been baffled for some time by what the author calls "the bizarre twists and turns of the NCLC line," particularly because the group has attacked liberal organizations such as the United Auto Workers as fiercely as the Rockefellers. Some say the militant, mysterious group has moved from the far left to the far right.

YOUNG AMERICANS FOR FREEDOM

The new president of Young Americans for Freedom is Jim Lacy, an assistant to Howard Jarvis' American Tax Reduction Movement.